United States Court of Appeals
for the Second Circuit

EXHIBITS

ORIGINAL

77-6148,6154

B

United States Court of Appeals
FOR THE SECOND CIRCUIT

P/S

DUPONT GLORE FORGAN INCORPORATED, *et al.*,
Plaintiffs-Appellants,

—against—

AMERICAN TELEPHONE AND TELEGRAPH COMPANY, *et al.*,
Defendants and Third-Party Plaintiffs-Appellees-Appellants,

—against—

UNITED STATES OF AMERICA,
Third-Party Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

EXHIBIT VOLUME

VOLUME 3 of 3
Pages E-1193 to E-1765

UNITED STATES COURT OF APPEALS
FILED
DEC 5 1977
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SECOND CIRCUIT

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TABLE OF CONTENTS

Trial Exhibits*

PAGE

Exhibit 1A—License Agreement between AT&T and Southwestern Bell **E-1**

Exhibit 1B—License Agreement between AT&T and Pacific Northwest E-19

Exhibit 1C—License Agreement between AT&T and Pacific Telephone E-29

Exhibit 1D—License Agreement between AT&T and South Central Bell E-40

Exhibit 1E—License Agreement between AT&T and Southern Bell E-49

Exhibit 7M—1972 AT&T Annual Report E-58

Exhibit 8A—April 28, 1961 letter from H.L. Kertz to General Commercial Managers E-102

Exhibit 8B—Notes accompanying April 28, 1961 H.L. Kertz letter E-105

Exhibit 8C—Binder, "Centrex Service Rate Development Considerations" E-113

---

* Unless otherwise noted, each exhibit was introduced by Plaintiffs. A more complete description of most exhibits is contained in the February 28, 1977 Stipulation as to Documents, appearing in the Appendix.

PAGE

Exhibit 8D—March 28, 1961 letter from R.F. Landry to General Commercial Managers E-202

Exhibit 9—March 24, 1961 letter from C.N. Ostergren to Chief Engineers E-208

Exhibit 10—April 28, 1961 letter from H.L. Kertz to Operating and Marketing Vice Presidents E-209

Exhibit 11—Binder, "Centrex—Development of Monthly Revenue Requirements" E-210

Exhibit 12—May 3, 1961 letter from F.C. Smith to W. B. Ellis *et al.* E-268

Exhibit 14—Charts from May 17 and 18, 1961 meeting E-269

Exhibit 15—Chesapeake and Potomac employee's notes regarding May 17 and 18, 1961 meeting .. E-309

Exhibit 16—Southern New England employee's notes regarding May 17 and 18, 1961 meeting .. E-314

Exhibit 17—C&P of Maryland employee's notes regarding May 17 and 18, 1961 meeting E-321

Exhibit 18*—April 6, 1961 Michigan Public Service Commission order E-330

Exhibit 19—May 16, 1961 memorandum sent by S.C. Ramage to R.F. DeButts E-335

---

* Defendants' Exhibit.

PAGE

Exhibit 20—Booklet, "Centrex PBX Service" E-338

Exhibit 25*—November 9, 1961 document prepared by J.N. King E-360

Exhibit 33—January 23, 1962 document received by Pacific Telephone from California Public Utilities Commission Staff E-365

Exhibit 37A—February 1, 1965 memorandum from F.C. Smith with attachment "Notes on Rate Principles and Illustrative Rate Treatment" .. E-368

Exhibit 37B—"Addendum to Notes Accompanying Letter dated February 1, 1965" E-377

Exhibit 39—February 26, 1965 letter from F.C. Smith to S.H. Jones *et al.* E-392

Exhibit 40—June 7, 1971 A.X. Ichter memorandum E-399

Exhibit 41B—Tariff pages filed by Bell of Pennsylvania E-408

Exhibit 41C—Tariff pages filed by Michigan Bell E-459

Exhibit 41D—Tariff pages filed by Chesapeake and Potomac E-648

Exhibit 43—April 17, 1963 Tennessee Public Service Commission order E-731

Exhibit 44A—March 25, 1964 Tennessee Chancery Court memorandum E-735

---

* Defendants' Exhibit.

PAGE

Exhibit 44B—Tennessee Chancery Court order .. E-742

Exhibit 44C—April 7, 1964 Tennessee Chancery Court decree E-743

Exhibit 44D—Tennessee Chancery Court modified decree E-744

Exhibit 44E—August 25, 1964 Tennessee Supreme Court consent order E-746

Exhibit 45—July 12, 1962 complaint filed with Louisiana Public Service Commission E-747

Exhibit 47—February 14, 1963 petition filed with New York Public Service Commission E-755

Exhibit 48—April 29, 1963 New York Telephone answering statement E-759

Exhibit 49A—June 26, 1963 New York Public Service Commission decision E-801

Exhibit 49B—June 26, 1963 New York Public Service Commission order E-803

Exhibit 49C—September 10, 1963 New York Public Service Commission order E-804

Exhibit 51B—July 17, 1967 memorandum decision, Supreme Court of the State of New York, Albany County E-805

PAGE

Exhibit 51C—August 24, 1964 order of the Supreme Court of the State of New York, Albany County E-811

Exhibit 52—November 4, 1964 New York Telephone letter to New York Public Service Commission with folder entitled "Centrex Costs and Rates" E-813

Exhibit 53—New York Public Service Commission order and report E-845

Exhibit 68A—"Draft A" E-874

Exhibit 69—Three-column document prepared by AT&T E-885

Exhibit 72A—Handwritten notes of November 9, 1964 meeting E-893

Exhibit 72B—Typewritten copy of handwritten notes of November 9, 1964 meeting E-902

Exhibit 74—December 4, 1964 letter from V.E. Ferrall to L.N. Woodworth E-910

Exhibit 75—December 10, 1964 memorandum prepared for V.E. Ferrall by E.R. Charvat E-927

Exhibit 76—December 17, 1964 letter from V.E. Ferrall to L.N. Woodworth E-932

Exhibit 79—December 29, 1964 letter from R.D. Weber to H. Boyles E-941

PAGE

Exhibit 80—Jan[illegible] 12, 1965 memorandum from L.R. Stang to G.W. Trout E-943

Exhibit 81—January 14, 1965 memorandum E-944

Exhibit 82—January 25, 1965 memorandum E-945

Exhibit 83—February 3, 1965 memorandum from W.G. Butler to R. DeButts E-946

Exhibit 85—May 14, 1965 memorandum prepared by V.E. Ferrall and R.J. Foulis for F.R. Kappel E-947

Exhibit 86—Memorandum and attachment received on or about May 11, 1965 .... E-949

Exhibit 87—Document containing handwriting of V.E. Ferrall E-953

Exhibit 89—Document from files of AT&T General Tax Attorney dated May 12, 1965 .... E-956

Exhibit 90—Document in handwriting of V.E. Ferrall E-963

Exhibit 96—January 28, 1966 letter from A.L. Stott to W.D. Mills E-965

Exhibit 97—February 25, 1966 letter from A.L. Stott to R.B. Long E-967

Exhibit 98—August 10, 1967 letter from H.I. Romnes to W.D. Mills E-969

PAGE

Exhibit 99—February 6, 1968 letter from H.I. Romnes to W.D. Mills E-971

Exhibit 100—May 21, 1969 letter from A.L. Stott to W.D. Mills E-972

Exhibit 101—September, 1970 statement of R.N. Flint to House Committee on Ways and Means E-973

Exhibit 102—June 21, 1965 letter from V.E. Ferrall to General Counsel E-979

Exhibit 106—September 3, 1965 letter from V.E. Ferrall to General Counsel E-988

Exhibit 108A—Document entitled "Conference on Communications Taxes" E-991

Exhibit 108B—Document entitled "Conference on Communications Taxes" E-1094

Exhibit 110—Typewritten transcription of G.J. Hartman's notes of October 6 and 7, 1965 meetings E-1113

Exhibit 114A—October 28, 1965 letter from R.N. Flint to Comptrollers E-1120

Exhibit 117A—August 19, 1968 "Tax Talk" E-1121

Exhibit 117B—Revised Federal Excise Tax Manual E-1123

Exhibit 119—June 14, 1971 "Tax Talk" E-1193

PAGE

Exhibit 121—September, 1968 document prepared by W.H. Doughty E-1196

Exhibit 122—February 3, 1969 letter from R.T. Dugan to Rate and Marketing Heads E-1241

Exhibit 123—November 13, 1969 document prepared by R. L. Marker E-1244

Exhibit 124—August 16, 1965 letter from V.R. Schopp to R.W. Johnson E-1252

Exhibit 125A—Memoranda dated June 8, 1966 and June 10, 1966 from M.C. Mallory E-1253

Exhibit 125B—June 8, 1966 draft E-1254

Exhibit 126—June 13, 1966 memorandum from E.R. Charvat to R.D. Weber, copy to M.C. Mallory E-1258

Exhibit 127—June 15, 1966 letter from E.R. Charvat to M.C. Mallory E-1259

Exhibit 128—June 22, 1966 memorandum and June 20, 1966 draft from M.C. Mallory E-1263

Exhibit 129—June 24, 1966 memorandum from E.H. Munz to M.C. Mallory E-1268

Exhibit 130—July 14, 1966 letter from M.C. Mallory to D.W. Morrison E-1269

Exhibit 131—January 30, 1967 letter from E.J. Renfro received by H.L. Engelmann E-1273

PAGE

Exhibit 132—February 22, 1967 memorandum from General Commercial Manager—St. Louis .. E-1274

Exhibit 133—March 1, 1967 memorandum from General Merchandising Manager—St. Louis and Commercial Operations Engineer—St. Louis E-1275

Exhibit 135—March 14, 1967 memorandum signed for General Merchandising Manager—St. Louis E-1276

Exhibit 136—March 28, 1967 letter from T.B. Luzon to B. Smith E-1282

Exhibit 137—June 15, 1967 letter from E.J. Renfro to H.L. Engelmann E-1283

Exhibit 138—June 16, 1967 memorandum from W.O. Douglass E-1285

Exhibit 141—July 11, 1967 memorandum from H.E. Jones E-1286

Exhibit 142—August 4, 1967 letter from H.L. Engelmann to E.J. Renfro E-1287

Exhibit 143—June 12, 1968 memorandum from G.J. Hartman to B.L. Agnew E-1288

Exhibit 144—August 22, 1968 letter from A.T. Wacker to J. Curren E-1290

Exhibit 146—April 8, 1969 letter from J. Curren to A.T. Wacker E-1292

PAGE

Exhibit 147—April 8, 1968 letter from B.C. Williams to R.M. Fehlen E-1295

Exhibit 148—May 27, 1968 memorandum from R.F. Lynd to E.D. Clouse E-1296

Exhibit 149—June 26, 1968 letter from B.L. Williams to E.D. Clouse E-1297

Exhibit 150—August 12, 1968 memorandum from J.T. Alter to E.D. Clouse E-1298

Exhibit 151—Document sent by C.F. Hurd to H.C. Luppens E-1300

Exhibit 152—May 14, 1969 memorandum from E.D. Clouse to W.E. Mirre E-1304

Exhibit 153—March 7, 1967 memorandum from G.H. Ruschhaupt to J.F. Hulihan E-1308

Exhibit 154—Memorandum from W. Wohlhagen to G.H. Ruschhaupt E-1309

Exhibit 156—November 4, 1971 memorandum from G.H. Ruschhaupt E-1310

Exhibit 159—December 12, 1967 letter from J.M. Shotz E-1313

Exhibit 160—January 25, 1968 letter from E.R. Charvat to C.L. Barrett E-1317

Exhibit 161—August 30, 1968 letter from IRS to New Jersey Bell and IRS technical advice memorandum dated August 8, 1968 .... E-1329

PAGE

Exhibit 162*—September 16, 1968 "Tax Talk" E-1332

Exhibit 163*—April 14, 1969 "Tax Talk" E-1334

Exhibit 169—January 7, 1971 letter from C.R. Mott, Jr. to G.W. Bates E-1337

Exhibit 173—March 5, 1971 letter from W.O. McCoy to C.R. Mott, Jr. E-1339

Exhibit 178—May 4, 1971 memorandum from W.P. Campbell to G.W. Trout E-1340

Exhibit 181—June 4, 1971 memorandum from IRS National Office to IRS District Director, Manhattan E-1341

Exhibit 183—June 17, 1971 memorandum to R.M. Kemp with attachment E-1345

Exhibit 186—June 11, 1971 letter from R.M. Smith to R.T. Dugan E-1348

Exhibit 187—June 10, 1971 memorandum to R.T. Dugan E-1349

Exhibit 189—June 11, 1971 letter with attachment from W.H. Bowen, Jr. to R.T. Dugan E-1350

Exhibit 190—June 15, 1971 memorandum with attachment from R.T. Dugan to J.B. O'Boyle, copy to V.E. Ferrall E-1358

---

* Defendants' Exhibit.

PAGE

Exhibit 194—August 12, 1971 memorandum from C.J. Halpern to V.E. Ferrall E-1360

Exhibit 196—Memorandum written August 16, 1971 from A.X. Ichter to W.J. Wohlhagen E-1361

Exhibit 197—September 10, 1971 memorandum from G.H. Ruschhaupt to E.S. Gill E-1363

Exhibit 198—September 15, 1971 memorandum from W.J. Rinkor to R.T. Dugan E-1364

Exhibit 199—Memorandum from E.S. Gill to Vice Presidents and General Managers E-1365

Exhibit 200—September 27, 1971 letter from R.T. Dugan to Rate Heads and Marketing Heads E-1374

Exhibit 201—January 19, 1972 letter from P.D. Loser to General Commercial Managers E-1393

Exhibit 203—January 6, 1972 memorandum from V.E. Ferrall to R.T. Dugan E-1406

Exhibit 205A—May 9, 1972 memorandum from C.E. Erickson to C.J. Halpern E-1408

Exhibit 205B—May 1, 1972 *Telephony* article E-1409

Exhibit 206—January 18, 1972 memorandum prepared at C&P of Maryland E-1411

Exhibit 207—January 24, 1972 memorandum to B.R. Jacobs E-1412

PAGE

Exhibit 208—Memoranda produced from files of Illinois Bell E-1413

Exhibit 211—April 3, 1972 memorandum with attachment from B.L. Brayton to W.E. Clemens .. E-1414

Exhibit 212—April 7, 1972 letter from R.A. Ryerson to B.L. Brayton E-1416

Exhibit 213—April 6, 1972 memorandum from W.M. Youngman to E. Sklenicka E-1417

Exhibit 214—April 10, 1972 memorandum from E. Sklenicka to W.M. Youngman E-1418

Exhibit 215—December 3, 1971 letter from N.P. Platt to G. Preis E-1419

Exhibit 217—February 15, 1972 letter from M.T. Gearhart to R.K. Matthews E-1420

Exhibit 220A—June 20, 1972 letter from B.F. Campbell to C.W. Camack E-1421

Exhibit 221—November 12, 1971 letter from L.H. Calloway to C.H. Garity E-1422

Exhibit 224—December 16, 1971 letter from G.R. Conner to W.T. Todd E-1423

Exhibit 225—December 9, 1971 memorandum E-1425

Exhibit 226—January 21, 1972 letter with attachments from P.Q. Partee to R.J. Anthony E-1426

PAGE

Exhibit 228—March 3, 1972 letter from F.M. Pelka to V. Flately and J.M. Fastenau E-1428

Exhibit 230—May 6, 1972 letter from S.M. Herbst to W.C. Bauer E-1429

Exhibit 231—May 24, 1972 letter from D.N. Smith to L. Burke E-1431

Exhibit 232—May 26, 1972 letter from P.R. Edwards to T.A. Castellone E-1432

Exhibit 236—October 11, 1971 memorandum from H.F. Rolfe to W.P. Campbell E-1433

Exhibit 237—October 15, 1971 memorandum from W.P. Campbell to H.F. Rolfe E-1434

Exhibit 251—Colorado Public Utilities Commission Decision No. 83232 .... E-1435

Exhibit 265*—Form of December 19, 1974 IRS letter to various taxable Centrex customers E-1453

Exhibit 266*—Form of January 27, 1976 IRS letter to various taxable Centrex customers E-1454

Exhibit 267*—August 24, 1976 New York Public Service Commission order E-1455

Exhibit 268*—November 9, 1976 New York Public Service Commission order E-1458

---

* Defendants' Exhibit.

PAGE

Exhibit 269B—Remarks of President Lyndon B. Johnson at the signing of the Excise Tax Reduction Bill, June 21, 1965 .... E-1462

Exhibit 270A—House Report No. 433, 89th Cong., 1st Sess. (1965) E-1466

Exhibit 270B—Senate Report No. 324, 89th Cong., 1st Sess. (1965) E-1511

Exhibit 271—Tariff pages filed by New York Telephone E-1573

Exhibit B*—Plaintiffs' Amended Responses and Objections to Request for Admissions E-1654

Exhibit C*—Interrogatory Answers Describing the Preparation, Filing, and Implementation of Revised Tariffs Establishing Separate Centrex Station Charges for Exchange Access and for Intercommunication E-1665

Exhibit K—January 20, 1965 memorandum E-1751

Exhibit M for identification*—February 12, 1974 letter from S.J. Markman to L.E. Walsh E-1753

Exhibit N*—Schematic Drawing Describing PBX and Centrex Service E-1755

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* Defendants' Exhibit.

E1193
EXHIBIT 119
June 14, 1971 "Tax Talk"

TAX TALK

TAX NEWS COMMENT

ISSUED BY THE GENERAL TAX SECTION · COMPTROLLERS DEPARTMENT · AMERICAN TELEPHONE & TELEGRAPH COMPANY

Vol. XIV, No. 24 June 14, 1971

LEGISLATION

Mills to Offer Aid-to-Cities Plan

It is reported that House Ways and Means Committee Chairman Wilbur D. Mills (D-Ark) has unveiled an alternative proposal to the Administration revenue sharing plan currently being considered by Senate and House Committees (TT, 6/7). Rep. Mills, who is on record that he intends to bring about the defeat of the Nixon program, outlined his plan for financial aid to cities at a secret meeting last Thursday with key Democratic figures including Governors, Mayors and Senators. While the aid-to-cities proposal has not been worked out in full detail, the main concepts (and differences from the Administration revenue sharing plan) are believed to be:

- financial aid to cities only (precisely to what size has not yet been decided); states, counties and town governments would not share in the largess as they would under the Nixon program;
- a cost not expected to exceed $3.5 billion, compared with a $5 billion first year tab placed on revenue sharing;
- authorization for some pre-set period of 3 to 5 years; the program would not be set up as a permanent institution;
- allocation based on an "according-to-need" formula derived from the proportion of poor in each participating city;
- specific Federal controls established on the spending of the money by the cities - in contrast to the Administration "no strings" recommendation. Reportedly the funds could be used only to finance municipal services such as police and fire protection, sanitation, and health requirements.

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
119

EXCISE TAXES

Centrex Tariffs Being Examined

In the increasingly competitive world of communications, one service offering, Centrex, has stood out as a symbol of the difficulties faced by System companies in vying with nonregulated equipment manufacturers while burdened with the 10-percent handicap imposed by the Federal excise tax. Centrex service is fundamentally an intercommunication system. However, the language of the Code and the specific statement of Congressional intent accompanying the introduction of a private communication system definition (HR 8371, 1965) has always required that tax be billed on unrestricted Centrex stations. The problem is that Centrex, unlike PBX, does not provide a separate charge for the intercommunication function and the access to the exchange-toll network. Thus, the entire charge, rather than just the trunk charge, is subject to tax.

Exhibit 119

TAX TALK, June 14, 1971

The crunch of competing with systems manufactured by nonregulated suppliers for interconnection with the Bell network and direct pressure from a number of large users has resulted in considerable activity by some System companies as well as A.T.and T. to develop a way of incorporating into tariff language for Centrex offerings a valid separate "trunk charge". At this writing it is understood that Pacific, Pennsylvania, Southwestern, South Central, and Southern are struggling with this knotty problem. In addition, 195 marketing and rates people are heavily committed to resolving the Centrex "separate charge" question.

We will try to keep companies informed on this important problem as developments break.

Excise Tax Refusals to Pay Reach New High

Customer refusals to pay Federal excise tax on communications services in protest to the Vietnam war rose 34-percent in the first quarter of 1971 to a record high of 17,226. The previous peak was the second quarter of 1970 when the total reached 14,264.

Some companies have reported increased activity by the Revenue Service to collect delinquent amounts but the scattered efforts have apparently failed to discourage the practice. Oddly enough, the revenue amounts involved are, from a Treasury Department perspective, so negligible that the IRS has not seen fit to mount any real concerted effort to curb the tax refusal form of dissent. The major impact of the movement falls on the telephone companies where the administrative demands of keeping track of refusers and accurately reporting the required data to the IRS quarterly is becoming a monster for some. For example, in the first quarter of 1971, Pacific handled 3,300 refusals; New England skyrocketed from 1,500 to 3,200; New York dealt with 2,200; and Michigan soared from 1,100 to 1,600. The centers of activity continue to be the university and college towns.

A few rounded numbers illustrate the escalating trend (by calendar quarters):

	1st	2nd	3rd	4th
1969	3,700	3,500	3,200	4,000
1970	5,400	14,200	11,600	12,800
1971	17,200			

Comment: It has become increasingly apparent that it will take a massive or at least dramatic effort by the Service to nip this one. Maybe seizing a thousand cars would do it (college students without wheels are lost souls).

Exhibit 119

OTHER DEVELOPMENTS

Letter Released

1971 Deferred Tax Amounts - Comptrollers of direct subsidiaries of A.T.& T. which will be included in the consolidated Federal income tax return for 1971 were informed in a June 7 letter of the amounts of deferred taxes associated with the June 15 installment payment on the 1971 estimated tax which will be distributed on that date in accordance with the attachment to this letter.

PERSONALS AND PERSONNEL

South Central's Number Comes Up

The Returns group of the General Tax Section has secured the services of Len Yarbrough of the South Central company for the month of June. Traditionally, each year the group calls on a Bell company to lend the talents of one of its tax people to review Federal income tax return material of System companies included in the consolidated Federal income tax group. Welcome to the "Source", Len.

E1196
EXHIBIT 121
September, 1968 document prepared
by W.H. Doughty

PRIVATE

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(ED. 4-23-71)
~~DEFENDANT~~
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
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121

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CONTENTS

I. Study Procedure

II. Earnings Performance

III. Highlight Findings

IV. Recommendations

V. Illustrative Cases and Data

VI. Individual Company Summaries

Switching Systems Rate Plans Group
September, 1968
WHD

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Exhibit 121

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Exhibit 121

STUDY PROCEDURE
CENTREX SERVICE EARNINGS REVIEW
AUGUST, 1968

The project objective was to determine the current Centrex earnings situation in the Bell System. The review covered each Company's existing knowledge of its own situation. The material in this report was gathered during August, 1968, in a series of meetings and discussions with Associated Company Rate people. We asked these central questions:

- What is Centrex' current earnings performance relative to your original objectives?
- How do Centrex earnings compare to PBX earnings?
- What key factors have supported or depressed Centrex earnings?

Dollar figure case histories in full detail (from specific estimate onward) were asked for also, but were not available. However, specific cases and data which illustrate the conclusions of this review are given in Section V..

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Exhibit 121

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E1200
Exhibit 121

CENTREX EARNINGS PERFORMANCE

	Percent of Total Centrex Development*
Centrex earnings appear about at objective levels in:	
New Jersey	30
Pennsylvania	
C&P - Virginia	
C&P - West Virginia	
Ohio	
Michigan	
Indiana	
Wisconsin	
Southwestern	
Cincinnati and Suburban	
Centrex earnings appear to fall short of objectives in:	
New England	70
New York	
C&P - Washington	
C&P - Maryland	
Southern	
South Central	
Illinois	
Northwestern	
Mountain	
Pacific Northwest	
Pacific	
Southern New England	

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Exhibit 121

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E1202
Exhibit 121

HIGHLIGHT FINDINGS

None
SNE
N.Y. (semi)
Illinois (semi)
[illegible]

Not doing
Southern - S.C.
Mountain
Nebraska

This review gathered in each Company's knowledge of its own Centrex earnings situation. Most Companies did not have specific current studies of Centrex earnings. However, they were able to identify key trends and forces, but could not precisely quantify the current earnings level.

Earnings objectives for Centrex are apparently being met in 10 Companies serving 30% of the Centrex stations. In the Companies with the remaining 70% of Centrex development, earnings appear to fall short of objectives.

Any generalized reputation Centrex may have gained as a "loser" would seem to have arisen from knowledge of specific adverse situations and unusual cases rather than from a general view of the overall service in any Company.

- Airports
- Single [illegible]
- Seasonal
- Specialized systems

Factors That Tend to Improve Earnings:

- Centrex is almost universally regarded as a better-earning service than its chief competitor, basic PBX service. Pacific sees the two services earning at about the same level, and Southern New England's Series 100 service produces a greater return than Centrex.
- Close administrative control of the Centrex program, with market forecasting and equipment planning on a wire center basis, are key factors in sustaining earnings. Good performance in this area is a common bond between the Companies with good Centrex earnings.

WC forecast
- Mountain
- SNE
- N.Y. (claims)
- NWB (informal)
+ Wisconsin
+ [illegible] area
+ C&P (informal)
Control - Pa, Ill, Mich, SWB, C+S, Ohio

- Centrex stations in university dormitories appear to be making a positive contribution to overall Company earnings (Section I) through toll usage. Additionally, two Companies have made studies of university Centrex systems. They found busy hour calling loads and switching requirements lower than for commercial Centrex systems.
- Where premium grades of service (Centrex II, custom calling features) can be marketed, they generally act to support overall Centrex earnings. (rates)
- Bridged extension rates appear to support earnings. (Michigan study)

375 - 350
10 V-7
10 7-9

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E1203
Exhibit 121

[illegible] (NC) [illegible]

Factors That Tend to Depress Earnings:

- A strong factor pushing Centrex return downward has been the general rise in labor and material prices.

(System Indices
(NY + Mich [illegible]
[illegible]

- Implementation of Automatic Identified Outward Dialing (AIOD) operation has been slow, due to a desire to maintain earnings in the face of substantial cost increases for that portion of Centrex-CU service. Only one Company (Pacific) has been installing AIOD with every new Centrex-CU.

Current cost
vs 1961 est.
Wisconsin

- There is a lot of concern about the growing impact of computer usage and other information-type services on Centrex switching quantities and revenue requirements. Many Companies strongly feel the need for developing a rate treatment to cover these added costs.

SWB
experience
[illegible]

The Companies approach Centrex "profitability" in various ways. Some look at just the incremental, or Centrex feature, portion of the service. Others are inclined to consider the total intrastate revenues contributed to the Company's business rather than the specific return on only the Centrex portion of a customer's total array of services.

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E1204
Exhibit 121

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E1205
Exhibit 121

RECOMMENDATIONS

- We should inform the Associated Companies of the results of this review. We would not emphasize current earnings levels. Rather, our objective would be to discuss areas of concern and major trends, advising the Companies of appropriate actions they might take. We will want to discuss:
    - the need for forecasting, planning and choosing Centrex vehicles on a wire center basis.
    - the need for those Companies which have not recently studied Centrex to initiate a current appraisal.
    - the need for a strong marketing effort in connection with premium grades of service (Centrex II, custom calling features) in wire centers where customer needs and company return potential are both high.
    - the need to watch closely for development of clear trends in usage of computers and information systems with Centrex.
- We should organize an interdepartmental group at "195" to develop guidelines for the Companies' use in examining the "profitability" of the basic large customer services.

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E1206
Exhibit 121

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E1207
Exhibit 121

ILLUSTRATIVE CASES AND DATA

This section contains illustrative cases and data supporting the findings of the study. The available material was gathered from the Associated Companies. In addition, other AT&T departments furnished information and support.

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E1208
Exhibit 121

Service and Vehicle Selection - Michigan

Ford Motor Co.

- At Marketing's request the engineers, traffic and rate people looked at Centrex feasibility and return for Ford Motor Co. at Livonia.

- The system would serve some 1,500 stations at cutover, with growth to 2,000 by 1974.

- The study indicated that Centrex return would be marginal at best:

	CU 701 SxS	CO #5XB
Investment (1974)	$735,700	$659,000
Percent Return (1974)	1.4	5.0

- Traffic studies showed that the customer's heavy ccs load (7+ ccs per main) was made up largely of intercommunicating and tie line calling. Less than 2 ccs were for in and out message network calling. The benefits of Centrex would be relatively small for this situation.

- The low indicated return on investment coupled with the knowledge that the customer's calling pattern fits him more for PBX than Centrex has led the Company to recommend that the customer retain his present PBX service.

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E1209
Exhibit 121

Service and Vehicle Selection - Wisconsin

Eau Claire State Univ. - They looked at Eau Claire State University, comparing the economic advantages of CU service vs. continuing the customer's conventional PBX service. (Centrex-CO had been ruled out because Eau Claire is presently adequately served with a SxS central office, and establishing a #5XB could not be justified for this area.)

- They found that regular PBX service was returning about 2.6% on a gross investment of $444,000. For the additional $192,000 required to provide Centrex-CU, they found they could improve their return on the entire investment to around 4.7 on gross.

Oshkosh State Univ. - In 1967 they studied the situation at Oshkosh State University. The customer had expressed interest in having Centrex as soon as available.

- The study found that Centrex-CO would earn 8.0% on a $778,000 investment, while Centrex-CU would only earn 6.6% on $760,000 investment.

- The economic choice was for Centrex-CO, even though to meet customer service needs the Company will be required to advance a building addition by four years.

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E1210
Exhibit 121

Pre-Cutover Cancellations

New York Company - In May, 1968 an order for a 400 line Centrex-CU satellite was cancelled after the installation was completed prior to cutover. Non-recoverables exceeded $23,000, but the Company could only recover the SCC and one month's station rentals, a total of under $5,000.

Wisconsin - The Schlitz Brewing Company was scheduled to have Centrex-CO service early in 1969 in Milwaukee. The customer's plans were changed, to move the administrative offices to the suburbs, after some work had been performed. The equipment slated for serving this customer will be used for others. The customer has paid some $600 billed for the Company's non-recoverable engineering costs incurred prior to the change in plans.

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E1211
Exhibit 121

Short-term Disconnections

New York	-	They have had four short-term Centrex disconnection cases which involved a service downgrade at the same location.
	-	Three involved CO service, with the abandoned switching equipment reusable in place.
	-	The one CU customer changed to basic dial PBX service.
	-	A total of 1365 main stations were involved for these customers, about .45 of 1% of New York's total Centrex universe.
Pacific	-	A #5XB office was located close to the Aerojet - General plant in Folsom, California, to serve about 8,000 Centrex main stations. Within two years the customer reduced stations to about 3,000, due to cancellation of a job contract.
	-	The spare 5,000 line capacity cannot be used to furnish other exchange services due to the remote location of the central office.
	-	Assuming broadly an investment in #5XB switching equipment of $200 per Centrex main station, Pacific has $1,000,000 invested in switching now standing idle.

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E1212
Exhibit 121

Control of Choice of Serving Vehicle

Northwestern - In Des Moines, Iowa, Centrex I has been furnished on a CO basis from an older (Phase I) #5XB machine. A customer asked for Centrex II service, and wanted it provided on a CO basis. The Company's study indicated that the cost of the necessary modifications to the #5XB machine would exceed the cost of providing Centrex II for the customer on a CU basis using 701 SxS equipment. Accordingly, they have offered Centrex II-CU to the customer, ~~but~~ and have held firm in the face of repeated requests for CO service.

Southern - The engineers' study indicated that Centrex-CU, utilizing 701 SxS equipment, was the proper economic choice to serve Lockheed at its Marietta, Georgia facility. However, customer insistence on CO-type service led the Company to reconsider, and service is being provided out of the #5XB central office in Marietta proper, about 3½ miles away from the customer's location.

DDNTL TFA

E1213
Exhibit 121

Installed Cost Trends *

Item	1-1-61 Index	1-1-68 Index	Percentage Change
Crossbar COE (Acct. 221.47)	97.8	103.6	+ 6%
Large PBX (Acct. 234)	104.6	123.4	+18%
Underground Cable (Acct. 242.2)	100.4	110.7	+10%
Station Apparatus (Acct. 231.02)	91.5	96.7	+ 6%
Station Connection (Acct. 232)	109.0	135.9	+25%
Aerial Cable (Acct. 2421)	101.7	116.2	+14%

*Bell System Telephone Plant Indexes

Includes Material, Installation and Engineering Factors - 1957 - 1959 = 100

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E1214
Exhibit 121

Associated Company Cost Factors

Michigan -	1961	1968	Percent Increase
Hourly loaded labor rate	$ 5.72	$ 7.03	+23
Hourly loaded engineering rate	18.87	22.61	+20

New York -			
Hourly loaded labor rate	7.75	9.50	+22
Hourly loaded engineering rate	13.00	25.50	+96

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E1215
Exhibit 121

Centrex University Systems
Reduced Call Loads and Switching Requirements

Mountain States - Traffic has studied 15 college Centrex systems.

- The range of busy hour usage was

Busy hour ccs per total main station	No. of Systems
.1 - 2.0	7
2.1 - 2.5	2
2.6 - 3.0	1
3.1 - 3.5	2
Over 3.5	3

- The median system had 2.2 ccs.
- This compares with a median point of 4.2 ccs found for commercial Centrex systems.

Southwestern Bell- They studied two universities, University of Arkansas and Texas Tech.

- At Arkansas, traffic studies indicated they needed only 1400 switches rather than the 1800 required for an average traffic load. This 22% reduction in switching meant an investment saving of $33,000.
- At Texas Tech., switching requirements were only about 10% off the "average", and the savings was some $16,000 in investment.

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E1216
Exhibit 121

Centrex Dormitory Station Toll Revenues

Company	School	Average Monthly Toll Billing Per Centrex Dormitory Station
New England	Holy Cross	$12.75
	Univ. of Massachusetts	6.50
	Univ. of Rhode Island	5.95
New York	R.P.I.	7.70
Southern	Univ. of Georgia	16.00
South Central	Univ. of Alabama	11.50
	Louisiana State	7.35
Ohio	Kent State	12.75
Northwestern	Drake Univ.	12.45
	Univ. of Iowa	10.60
	Iowa State	4.75
Southwestern	Univ. of Texas	13.30
Mountain States	Univ. of Colorado Medical College	25.00
	Colorado State	6.60
	Eastern Montana Univ.	5.50
Pacific Northwest	Oregon State	8.00

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E1217
Exhibit 121

AIOD* COST CHANGES - CENTREX-CU

Original 1961 Estimates	Per Main Station Monthly Revenue Req't
300 main stations	$ .75
600 main stations	.30
1800 main stations	.15

Average CU rate inclusion = $.55 per main station

Most Companies have included a comparable amount in their Centrex rate treatment for AIOD.

Current Cost Picture	Per Main Station Monthly Revenue Req't
100 main stations	$1.60
300 main stations	1.00
600 main stations	.85
1800 main stations	.80

Thus, the cost for AIOD has roughly doubled ~~on a~~ per-station basis since 1961 for Centrex-CU.

X

*Automatic Identified Outward Dialing (AIOD)

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E1218
Exhibit 121

AIOD Impact on Wisconsin

- They plan to implement an AIOD program beginning in 1969. They will install all new Centrex-CUs on an AIOD-equipped basis. Also, they will complete converting existing ONI - served systems to AIOD by 1972.

- This program will involve 16 Centrex installations serving about 18,000 main stations. Eight central offices will be equipped for AIOD.

- The total added investment is estimated at about $500,000.
    - about $28.00 per station book cost
    - about $.75-1.00 per station monthly

- This current monthly cost exceeds their original 1961 rate inclusion of $.60 per station by $.15 - $.40.

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E1219
Exhibit 121

Premium Service Features

Centrex II

- Most Companies charge $.75 - $1.00 monthly per main station additional for Centrex II.

- Monthly revenue requirements (illustrative, "195" studies)

	stations in system		
	100	300	1600
#5XB - Phases I, II	$34.00	$11.00	$2.09
Phase III	.17	.11	.02
701 SxS	.85	.57	.31
101 ESS	(Capabilities are inherent in machine, some added time slot usage is required, but cost appears nominal).		

Custom Calling Features

- "195" recommended rates (Companies who have filed have generally followed these levels)

	Per Station Monthly
Speed Calling	$1.00
Call Forwarding, Call Pickup and Call Hold	1.75

- Like Centrex II features, these capabilities are inherent in the program of the 101ESS, and require no additional hardware to provide.

- The No. 1ESS central office machine can provide Speed Calling for Centrex customers now. All other features in this group cannot now be furnished except via the 101ESS, which sharply limits the market.

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E1220
Exhibit 121
Bridged Extensions

Michigan - studied profitability of Centrex-CU and CO systems both with and without extensions.

- rate of return for systems with extensions was:

CU	7%
CO	9%

- rate of return when extensions were removed from consideration:

CU	4%
CO	7%

Other Companies - do not have specific rate of return studies for extensions. Their rates range from $2.50 to $4.50, averaging around $3.25 - $3.50.

- these rates give them about $2.00, over station instrument revenue requirements, to cover added switching requirements. The 1961 "195" study indicates that this amount would be at least adequate and possibly abundant.

*Michigan's bridged extension rates are:
$3.25 in measured rate exchanges
$3.50 in flat rate exchanges

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E1221
Exhibit 121

Information Systems - Cost Impact

Southwestern

- Dow Chemical Company in Texas installed a computer with 32 "ports" behind their step-by-step Centrex-CU system. They wanted access to the ports from the message network as well as from the Centrex stations.

- Southwestern used digit-absorbing equipment and access via selector levels to accomplish this, at an installed additional cost of over $7,000. Their engineering study indicated that access via the regular switch train would have been more costly, estimated at a total added investment of $14,000.

- On a per-port, or per-line basis, the installed cost of the switching added was about $220. This compares with about $180 per line served for standard Centrex-CU switching capacity (including power and all other equipments).

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E1222
Exhibit 121

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E1223
Exhibit 121

INDIVIDUAL COMPANY SUMMARIES

This section contains summaries of each Company's knowledge of its Centrex situation. The material was gathered during August, 1968 in a series of personal visits to the following Companies:

New York
Pennsylvania
C&P (all)
Southern
South Central
Ohio
Michigan
Wisconsin
Illinois (visited in March, 1968)
Northwestern
Southwestern
Mountain States
Pacific

These Companies provide about 89% of the Centrex stations (excluding Canada). The other Companies were contacted by telephone.

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Centrex Cost/Revenue Evaluation

August, 1968

E1224
Exhibit 121

Company New England

State(s) All

Summary

I. Centrex Earnings

Original View - rates were designed to return 8% on net plant.

Current View - *

Related to PBX

II. Studies

III. Key Factors Affecting Earnings

*New England was unable to provide any data during August due to the strike condition. They did study Centrex from 100-300 stations in 1965, and found that revenue requirements had increased on systems over 300 lines. Based on that study, it appears that New England's earnings on Centrex are probably below objective levels.

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Centrex Cost/Revenue Evaluation
August, 1968

E1225
Exhibit 121

Company New York
State(s) New York

Summary

I. Centrex Earnings

Original View - rates were anticipated to return 6+% on net plant.

Current View - they appear to be earning around 5% currently.

Related to PBX - Centrex is earning better than basic PBX service, based on 1965 study of PBXs.

II. Studies - They have just recently reviewed Centrex cost/revenue relationship in response to this inquiry.

III. Key Factors Affecting Earnings

Positive

- Headquarters reviews all potential Centrex situations for selection of serving vehicle, and Company has controlled this choice.
- Serving vehicle choices have been made on basis of wire center forecasts.
- Market density has allowed them to gain high station fill in #5XB equipment and short (1/2 - 3/4 mile) CO station loop lengths.
- Short-term disconnections and pre-cutover cancellations have not caused any serious problems, indicating good forecasting and market selection.
- Dormitory Centrex stations are making a positive contribution to Company earnings though increasing toll revenues.

Negative

- Prices have risen substantially on materials and labor.
- New York maintenance costs have risen.

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Centrex Cost/Revenue Evaluation
August, 1968

E1226
Exhibit 121

Company New Jersey
State(s) New Jersey

Summary

I. Centrex Earnings

Original View - rates designed to return 8% on net plant.

Current View - No studies exist, but they feel their earnings are not seriously off the mark.

Related to PBX - Centrex is probably a better earner than basic PBX, though no comparative studies exist.

II. Studies - No current studies of Centrex exist.

III. Key Factors Affecting Earnings

Positive

- Each potential Centrex customer is studied interdepartmentally for the suitability and relative profitability of PBX, Centrex-CO and Centrex-CU. Service decisions and timing are based on these studies.
- Increased proportion of consoles (vs. switchboards) being installed.
- They haven't had any pre-cutover cancellations or short term disconnections of service.
- Central office loop lengths are about as estimated.

Negative

- Rise in material and labor prices.
- Secondary location development in different wire centers, where the station line mileage charge appears inadequate.
- Impact of computer and information-type services, on switching revenue requirements.

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Centrex Cost/Revenue Evaluation

August, 1968

E1227
Exhibit 121

Company Pennsylvania

State(s) Pennsylvania

Summary

I. Centrex Earnings

Original View - rates designed to return 8% on net plant

Current View - generally meeting return objectives, based on a 1966 study

Related to PBX- no specific studies of basic PBX service earnings exist, but they feel that earnings are well below Centrex.

II. Studies

- In 1966 average current costs were applied to 26 representative actual customers. On a going basis, station revenues for Centrex yielded 8% return. They did not include revenues or costs for exchange calling in the study.

III. Key Factors Affecting Earnings

Positive

- The Company exercises close administrative control of Centrex investment. Initially, all Centrex proposals were reviewed at Company Headquarters. Headquarters' control has gradually been relaxed as the operating areas have shown ability to control investment and maintain profitability.
- Centrex-CO station loop costs have declined due to a decrease in average loop length. New #5XB machines were located in concentrated downtown city areas and new industrial parks quite close to the customers served.
- The original rate study assumed a high CCS load (5.8 per station). Experience has proved this estimate was adequate.
- They have very little fully restricted station development.
- They do not have a dormitory service rate in effect at this time, so all Centrex stations at universities are billed at filed commercial rates.

Negative

- AIOD costs were not included in 1966 study, and they recognize that including them would depress indicated return.
- Current costs for #1ESS are high (they are using it for Centrex).
- Increases in labor and material costs since 1966 study would probably have some downward effect on earnings.

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Centrex Cost/Revenue Evaluation
August, 1968

E1228
Exhibit 121

Company Chesapeake & Potoma
State(s) All

Summary

I. Centrex Earnings

Original View - Rates designed to return 8% on net plant required to furnish Centrex features, 5-6% on PBX portion of the service.

Current View - They feel they are fairly close to objective earnings in Virginia and West Virginia, but are falling short in Maryland and Washington DC (based on 1966 studies).

Related to PBX - They feel that Centrex earnings are better than PBX, although they do not have specific recent studies of PBX for comparison purposes.

II. Studies

- In 1966 they interdepartmentally studied revenue requirements for systems from 100-300 lines. (Occasional engineering department studies have looked at portions of the offering, but cannot be taken as definitive for the overall service).

III. Key Factors Affecting Earnings

Positive

- They have now instituted a program of forecasting Centrex for each wire center at the time of the initial case. This will permit planning on a wire center basis and better investment management. (Maryland and D.C. did not have this procedure until recently).
- Centrex II development is growing, supporting overall earnings.
- Bridged extension development is high (about 50%).
- Centrex-CO outside plant loops are short (.9 mile in D.C.).

Negative

- Past administrative procedures required making Centrex vehicle choices on a case-by-case basis (now being changed).
- Rates for very large systems may not be adequate (civil government = 170,000 stations ultimately).
- Administrative costs are higher than anticipated (particularly in connection with establishing the government system).
- Rapid demand growth has forced installing Centrex on a rush basis, hampering efforts for long-range planning for Centrex.
- Continuous property mileage costs exceed the amount originally included in the station rate.
- Adequacy of Washington, DC Centrex rates was originally impaired by the necessity of maintaining a reasonable relationship to too-low hardware PBX rates.
- They have encountered heavy costs in providing a wide variety of station calling restrictions.
- Discount to hospitals in Maryland reduces revenues by 33-1/3%.

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Centrex Cost/Revenue Evaluation

August, 1968

E1229
Exhibit 121

Company Southern Bell & South Central Bell

State(s) All

Summary

I. Centrex Earnings

Original View - rates designed to earn 8% on net plant.

Current View - They are earning less than objective, based on 1966 study of small (100-300 line) systems.

Related to PBX- They feel that Centrex is a better earner than basic PBX service, although no current studies of PBX exist.

II. Studies

In 1966 they studied revenue requirements for small systems (100-300 lines). They have asked for a complete restudy of Centrex systems at all line sizes, due for completion by 4th quarter of 1968.

III. Key Factors Affecting Earnings

Positive

- Centrex II development helps support the overall offering, since the station rate differential exceeds the incremental costs. For Southern Bell, Centrex II will comprise ~~be~~ 30% of stations served at end of 1968.
- Sales of smaller systems support earnings, since rates are more adequate at lower end of schedule.
- Bridged station development is high (60% of main).
- Original rate development for attendant positions closely anticipated actual mix of consoles and switchboards.
- Service in dormitories supports overall Company earnings through increasing revenues.

Negative

- They have not been able to take advantage of Centrex-CO economies in some wire centers, since each state's administrative procedures have required choosing Centrex vehicles on a case-by-case basis. The need for long-range wire center planning for PBX/Centrex is recognized, but Headquarters is not now exercising strong control to implement such a program.
- Their 1966 study indicated a requirement for more exchange trunking than was included in the original rate buildup.
- The cost of outside plant for Centrex-CO has risen sharply.
- In some cases the Company has not been able to use CU-serving methods due to customer pressure for CO service.

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Centrex Cost/Revenue Evaluation

August, 1968

E1230
Exhibit 121

Company Michigan

State(s) Michigan

Summary

I. Centrex Earnings

Original View - designed to earn 8% on net plant.

Current View - estimated at a little less than 8%, not seriously off the mark.

Related to PBX- PBX earnings are estimated as being considerably below Centrex, since their rate level for Series 100 was established 15 years ago.

II. Studies - Each customer situation is studied prior to establishing service to see if Centrex would be profitable, No followup studies have been made by rate people of existing installations, no case histories.

III. Key Factors Affecting Earnings

Positive

- Tight control of Centrex investment has maintained earnings at an estimated good level. Centrex service is recommended for a customer only after a profitability study by Rates, based on Engineering and Traffic studies of the individual customer's situation. Generally, Centrex is only offered in those cases when reasonably good profitability can be expected. While other considerations have prevailed in some cases, MBT generally is guided by economic considerations in providing Centrex. Some 80 situations have been examined, with Centrex recommended and sold in about 60% of the cases.
- Switching and trunk quantities and outside plant loop lengths estimated in their original rate studies have been maintained in actual installations.
- High extension development (56% of mains) supports earnings.
- Maintenance expenses have declined or remained constant on SxS equipment, #5XB equipment, stations.

Negative

- Material price increases and lower-than-expected call carrying capacity on 101 ESS.
- Dormitory Centrex stations are keyed to 1FR rates, below estimated revenue requirements.
- They expressed concern about the effects of computer usage on Centrex. In one case (Ford Motor) 65 computer ports behind the Centrex required additional switching capacity equivalent to 650 Centrex stations.
- Low call carrying capacity on No. 1ESS is expected to produce high unit costs and reduce profitability on planned Centrex services for General Motors and Chrysler.

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Centrex Cost/Revenue Evaluation

August, 1968

E1231
Exhibit 121

Company Ohio Bell

State(s) Ohio

Summary

I. Centrex Earnings

Original View - Designed to return 8% on net plant

Current View - Overall service meets return objectives. CO is generally more profitable than CU, and medium-sized systems are more profitable than large systems.

Related to PBX - No specific studies of basic PBX earnings exist. Their general impression is that PBX earnings are well short of Company objectives and lower than Centrex.

II. Studies

In 1965 they did a revenue requirements study of various-sized typical Centrex systems. They have compared these 1965 costs with today's customers. They have no case history studies.

III. Key Factors Affecting Earnings

Positive

- only two installations of their 44 are in Schedule I (small flat rate) exchanges, the balance being divided almost equally between large flat rate and message rate exchanges. Revenues and profitability are greater in larger exchanges.
- In Cleveland, message unit revenue has stayed at the expected level ($3.00/station monthly).
- CO appears more profitable than CU; they have 90% CO systems.
- CO station loop is shorter than anticipated (actual = 1 mile vs. 1½ miles in 1961 study).
- CO switching cost is less than for CU.
- They have little dormitory service presently (any increase might depress earnings).

Negative

- every CU was a complete new installation, they didn't modify any existing SxS PBX's to add Centrex features.
- fully restricted stations have developed more than anticipated and they fall short of monthly revenue requirements by over $2.00.
- they have added attendant trunk facilities at no charge for off-net completion from private lines which weren't contemplated in the rates (for GE they added 30 trunks).

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Centrex Cost/Revenue Evaluation
August, 1968

E1232
Exhibit 121

Company Indiana
State(s) Indiana

Summary

I. **Centrex Earnings**

Original View - rates were designed to return 8% on net plant.

Current View { they are probably meeting their objective on Centrex-CU, but perhaps falling short on Centrex-CO.

Related to PBX- Centrex is generally earning better than basic PBX, though no comparative studies exist.

II. **Studies** - have studied Centrex II service (plan to file soon), no restudies of Centrex I. Each customer is studied prior to offering Centrex for profitability and vehicle selection purposes.

III. **Key Factors Affecting Earnings**

Positive

- Headquarters PBX/Centrex committee studies each Centrex candidate for profitability and vehicle selection purposes. They have been able to exercise firm control over vehicle selection.
- They have not had any pre-cutover cancellations or short-term disconnections of the service.
- Their Centrex-CU installations have largely involved conversion of existing systems rather than new installations.
- Centrex II will act, when filed, to support overall earnings.
- Have implemented AIOD slowly.

Negative

- Centrex-CO switching equipment has been higher-cost than anticipated.
- 101ESS is planned for three wire centers, and price increases have inflated cost beyond levels which the Centrex I rates can support.

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Centrex Cost/Revenue Evaluation

August, 1968

E1233
Exhibit 121

Company Wisconsin

State(s) Wisconsin

Summary

I. Centrex Earnings

Original View - rates were designed to earn 8% on the incremental Centrex feature portion of the service.

Current View - they are generally meeting their earnings objectives.

Related to PBX - they are earning better on Centrex service than on basic PBX service, based on a fragmentary 1966 study of PBX

II. Studies - No overall restudies of the service have been done, but each customer is studied for profitability prior to receiving Centrex service. These studies generally show satisfactory rate of return

III. Key Factors Affecting Earnings

Positive

- They have been able to maintain good control of serving vehicle choice, and have chosen vehicles based on wire center forecasts and plans.
- They have been able to serve where customer needs and return are both greater, and have been able to postpone providing service (avoiding crash programs) in unprofitable areas.
- Short term disconnects or precutover cancellations have caused little problems, indicating accurate forecasting and good market selection work.
- They have attained good marker group fill where Centrex-CO has been provided.
- Centrex-CO station loops average no more than what their rates contemplated.

Negative

- As they move to implement AIOD for Centrex-CU, the increased cost beyond what the rates contemplated will hurt profitability.
- They are committed to using the No. 1 ESS in several locations, to provide both Centrex and other services. The reduced call-carrying capacity of this machine will raise the cost per station served.
- Material and labor costs have increased.
- Dormitory service will depress return due to low station rates, though toll revenue will act to support overall Company earnings.

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Centrex Cost/Revenue Evaluation

August, 1968

E1234
Exhibit 121

Company Illinois

State(s) Illinois

Summary

I. Centrex Earnings

Original View - rates designed to return 8% on net plant.

Current View { earning 3%-4% on the Centrex service offering (I,II,III). These customers, they note, contribute substantial revenues through usage and auxiliary services which act to support overall Company earnings.

Related to PBX- PBX earnings may be lower than Centrex, though no comparative studies exist.

II. Studies - Centrex I and III were studied in 1968 by rate people based on 1967 cost factors.

III. Key Factors Affecting Earnings

Positive

- strong demand for the service
- CCS per main station are slightly lower than anticipated, tending to reduce switching cost per station.

Negative

- They do not actually choose between CO and CU serving methods, due to 1961 decision to make virtually exclusive use of #5XB as a serving vehicle.
- labor costs have risen roughly 7% annually since 1961, and productivity has not increased correspondingly.
- material prices of #5XB equipment have risen. Also, the 101ESS (used for Centrex III) has had a series of price increases and their Centrex III rates were based on original 1964 price estimates.
- message unit revenues per Centrex station are lower than the 1961 anticipated level.
- Centrex-CO station loops are longer than the average contemplated in 1961. Necessary transmission improvements were not contemplated in the original rates.
- Use of auxiliary services (private lines, WATS) has reduced the station serving capacity of the switching machines, and added costs of auxiliary services have not always been fully covered.

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Centrex Cost/Revenue Evaluation

August, 1968

E1235
Exhibit 121

Company Northwestern

State(s) All

Summary

I. Centrex Earnings

Original View - Rates were designed to return 8+% on net plant.

Current View - They are probably earning less than 8%, although they will know better the actual situation after completing new cost studies in the next six months.

Related to PBX - Earnings on Centrex probably exceed those on basic PBX service, based on 1963 studies of PBX.

II. Studies

- There have been no full revenue requirement studies of the entire service since 1961, but they plan a review within the next six months. Iowa engineers have made occasional studies of individual situations, which cannot be taken as representing the entire service.

III. Key Factors Affecting Earnings

Positive

- Economic selection studies in the states have been based on 5-year forecasts of wire center Centrex needs. The Company has generally exercised firm control over choice of serving vehicle.
- With the 101 ESS, they are getting good control unit fill and good development of Centrex II.
- With CO, outside plant loops average less than half as long as provided for in the original rates.
- Their original rate mix contemplated a high development of CO (40%).
- Dormitory Centrex stations contribute significant toll revenues to the business.
- Bridged extensions help support earnings.
- They have not implemented AIOD.

Negative

- In some cases (remote areas, involving small customers) Centrex was very costly to provide regardless of which method was chosen.
- There have been heavy costs associated with equipping older #5XB offices for Centrex II features.
- Price increases have hurt, especially on the 101 ESS. (They have used the 101 ESS for about 9% of their Centrex systems).
- Service and location lives of equipment are shorter than contemplated in the original rates.
- They provide reserve power capability (batteries) with all 101 ESS installations at no additional charge.

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Centrex Cost/Revenue Evaluation

E1236
Exhibit 121

Company Southwestern

August, 1968

State(s) All

Summary

I. Centrex Earnings

Original View - rates designed to return 8½% on net plant

Current View - they are generally meeting their objective on the overall service.

Related to PBX - PBX earnings are probably lower than Centrex, though they do not have any recent PBX studies to show this.

II. Studies

- In 1965 they used actual experience as a basis for model systems of various sizes. They have kept the study current, and have also made a specific study of systems with dormitory Centrex stations.

III. Key Factors Affecting Earnings

Positive

- Headquarters has kept a close eye on capital expenditures for Centrex. While actual approval authority rests with the states, the Headquarters engineers kept in close touch and have been able to advise where needed.
- Their original rate levels were high enough to absorb some of the impact of rising material and labor costs.
- They have provided service only on a CU basis, many times using in place 701 SxS equipment, and providing only Centrex I without TOUCH-TONE ® service.
- They have used AIOD equipment in only 5 cases (of the total 45).
- They have been diligent in making sure that costs resulting from additional equipment requirements for optional services are built into the rates for the optional services (e.g. tie line terminals).
- Their studies indicate that a significantly reduced switching and trunking requirement per station exists in university systems due to a non-coincident busy hour situation. This tends to offset the downward push on return caused by the low dormitory station rate.

Negative

- They are concerned over the impact of computer usage and information systems on switching requirements and costs. They recognize that existing Centrex rates will not support the very high new usage levels.
- Fully restricted station rates may not adequately cover costs in all situations (though this is not a big problem).

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Centrex Cost/Revenue Evaluation

August, 1968

E1237
Exhibit 121

Company Mountain States

State(s) All

Summary

I. Centrex Earnings

Original View - The rates were designed to return 8½% on net plant.

Current View - They are probably earning less than objective today. The outlook is for improvement, since many unfavorable factors are in process of correction.

Related to PBX - They are earning better on Centrex than on hardware PBX based on Montana rate case study factors.

II. Studies

- A comprehensive study of Centrex revenue requirements is now under way, due for completion in October, 1968.

III. New Factors Affecting Earnings

Positive

- They have recently initiated Companywide procedures for fundamental PBX/Centrex planning on a wire center basis. This will enable them to better manage investment by taking advantage of opportunities to use CO serving methods.
- They have instituted other controls recently, e.g., interdepartmental review of every Centrex proposal and Traffic and Engineering followup studies on all Centrex installations.
- Many present CU installations reused existing step-by-step equipment in place, keeping new investment low.
- They have also kept investment down by not implementing AIOD or switched loop attendant position operation.
- Their studies show that Centrex at universities can be furnished with significantly less switching than regular commercial systems, due to busy hour noncoincidence factors.
- They plan rate action to correct downward influence on earnings of fully restricted stations, and of the added switching and trunking needed to handle traffic generated by private line services.

Negative

- Until recently, planning and implementation was on a case-by-case basis.
- Their inability to "prove in" CO serving methods due to a lack of fundamental wire center plans has led to economic penalties when CUs have grown so much as to require relocation (Univ. of Texas at El Paso).
- Added switching and trunking associated with private line usage was not adequately covered.
- CCS per station appears to have grown beyond their 1961 expectation of 3.5.
- Material and installation prices have risen.

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Centrex Cost/Revenue Evaluation

August, 1968

E1238
Exhibit 121

Company Pacific

State(s) California

Summary

I. Centrex Earnings

Original View - rates designed to return 8% on net plant

Current View - probably in the range of 3%-5% on net plant, based on 1967 study of Centrex.

Related to PBX - probably PBX earnings are the same as Centrex, in a range of 3%-5%. They have no current PBX study, but the one on which they based their Series 100 is still valid, and they anticipated 5% at that time.

II. Studies

- In 1967 restudied Centrex at all line sizes. Using current traffic and equipment amounts, they developed revenue requirements which were used as basis for requesting station rate increase.

III. Key Factors Affecting Earnings

Positive

- Centrex II helps support overall earnings
- They apply a charge for continuous property mileage, helping them stay "whole" in connection with large customer locations.
- They apply mileage charges per telephone at secondary locations.

Negative

- many large Centrex customers are engaged in very volatile enterprises -TRW (e.g., aerospace). Some large station fluctuations have resulted in idle equipment capacity well beyond normal growth needs.
- AIOD costs have risen beyond what their rates contemplated. Pacific installs AIOD equipment for each Centrex-CU.
- CCS and switching equipment quantities required have been greater than contemplated in the 1961 study.
- Lack of capital money has prevented any planned, Company-initiated sales of Centrex to provide good Centrex-CO marker group fill and lower unit costs.
- Additions to existing installations are ordered by customers in small, piecemeal amounts, to spread out the payment of installation charges. Pacific charges an IC for installed total station capacity, working and spare.
- Rising material and labor costs have affected return.

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E1239
Exhibit 121

Pacific Northwest

9-4-68

The PNB rate people are now engaged in restudying Contrex, based on current revenues from actual customer installations and updated cost information. They expect that this review will be completed by 9/10, with the results available to us at that time.

Their general feeling is that the rate of return for Contrex will come out lower than their 8% objective.

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Centrex Cost/Revenue Evaluation

E1240

Exhibit 121

Company Cincinnati & Suburba

August, 1968

State(s) Ohio & Ky. *

Summary

I. Centrex Earnings

Original View - rates designed to return 8% (they used AT&T illustrative rates).

Current View - they feel they are probably earning around objective level.

Related to PBX - probably earning better on Centrex than on PBX, since PBX rates were last adjusted in 1953.

II. Studies - no studies of Centrex since 1961.

III. Key Factors Affecting Earnings

Positive

- Development has generally followed predicted pattern (80/20 CU/CO).
- Most Centrex-CUs have been conversions of existing PBX systems.
- They have not implemented AIOD.
- Their only Centrex-CO is a large one (4300 mains), so they have attained good marker group fill.
- They have been able to control vehicle selection.
- There have been, to their knowledge, no significant changes in basic traffic assumptions since 1961.

Negative

- Rising material and labor prices.
- Reduced call carrying capacity of No. 1ESS will operate to increase switching costs per station (they have two offices scheduled, for Cincinnati and Hamilton).

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* There are no main Centrex service locations in Kentucky

E1241
EXHIBIT 122
February 3, 1969 letter from R.T. Dugan
to Rate and Marketing Heads

**American Telephone
& Telegraph Company**
195 BROADWAY, NEW YORK, N.Y. 10007
212 393-9800

DATE February 3, 1969

~~DEFENDANT~~
EXHIBIT
U.S. DIST. COURT
S.D. OF N.Y.
122

TO: Rate and Marketing Heads

FROM: Assistant Vice President - Marketing and Rate Plans - Exchange Services

SYNOPSIS: Discusses principal findings of a recent review of the economic aspects of Associated Company Centrex offerings.

* * *

We recently conducted a review of Centrex service with Associated Company rate people. Our concern centered on earnings performance and on the key factors and trends which affect rate of return. The results of this review are of general interest and bring to light a number of aspects which all Companies will want to be sure are given proper consideration in their operations. The principal findings were:

- In general, Centrex appears to be an attractive business venture. Like other services, it has been beset by rising material and labor costs. In spite of this, the service has continued to meet its original earnings objectives in a number of Companies. Even where Centrex earnings appear to have fallen off, it is a better earner than hardware-rated basic PBX.
- Since Centrex generally makes a larger contribution to earnings than basic PBX, it is desirable to maximize the opportunity to market Centrex. In those states where the Companies have not yet reduced the Centrex minimum station requirement to around 100 stations, a reevaluation of doing so appears in order.
- Effective management of the Centrex program was found to be a common bond among Companies with better Centrex earnings performance. The cornerstone of effective control has been the ability to formulate marketing and equipment programs based on forecasted service requirements of entire wire centers. The AT&T interdepartmental letters which outlined the basic procedures for managing

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PBX/Centrex programs, and for planning on a wire center basis were:

February 26, 1965 - "PBX and Centrex Packaging - Status Report" (from Messrs. Collins, Landry, Mapes, Smith)

January 26, 1966 - "PBX and Centrex Packaging - Market Forecast and Systems Planning" (from Messrs. Crabb, Collins, Mapes, Tait)

- The Companies should have current studies of Centrex capital costs and operating expenses. Several Companies have completed current cost/revenue relationship reviews and others have them underway. It appears desirable for the remaining Companies to initiate such studies at this time. The main reason for such activity is the need to be prepared to maintain a proper PBX-Centrex rate balance. As the Companies may move to adjust charges for basic PBX service, it may be desirable to consider a (probably smaller) corresponding rise for Centrex to maintain proper rate level and earnings relationships between the services. Current cost study material is a prerequisite for determining the range of any such adjustment and for supporting necessary tariff filings.

- There is a need for vigilance regarding new and changed usage patterns. The most important appear to be: possible changes in station user calling, added usage resulting from connecting private line and other optional services to a PBX/Centrex system, and the impact of computers and other information-handling systems. Additionally, the recent broadening of tariff provisions relating to connection of customer-provided communication systems will also affect the development of services in this market, and should be closely followed. The Companies all recognize the potential impact on earnings in these areas, but more needs to be known, more facts and experience gathered, about actual trends and situations.

- Sales of premium grades of service will help build earnings. Many Companies have by now filed rates for Centrex II, and some have filed rates for PBX/Centrex Custom Calling features. Marketing these services can generate revenues which contribute to the overall profitability of the offering. Those Companies who have not yet filed rates for these services have an opportunity to do so at levels which can enhance return.

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E1243
Exhibit 122

All Companies noted that unavoidable increases in material and labor prices have had a marked effect on Centrex cost/revenue relationships. The experience of the Companies has shown that a well-planned marketing program and close administrative control can help maintain Centrex earnings in the face of these adverse cost trends.

Mr. Williamson is sending copies of this letter to Chief Engineers, and Mr. Tait is sending copies to the General Commercial Managers.

If your people have any questions on rate aspects of this review, Bill Doughty (212 393-2523) will be glad to discuss them.

RT Dungan

Assistant Vice President

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E1244
EXHIBIT 123
November 13, 1969 document
prepared by R.L. Marker

Comparison of Centrex and Individual Business Line Rates

[illegible]
[illegible]

PLAINTIFF
EXHIBIT
U.S. DIST. COURT
S.D. OF N.Y.
123

Mr. Birkinshaw —
Pls hold.
6-16-72

November 13, 1969

MEMORANDUM:

The question has been raised as to why the rate for a Centrex-CO service is lower than for individual flat business service. The two services are very much alike, with Centrex-CO having the additional capability of attendant service and 4-digit intercommunication.

Essentially, the answer to the question lies in the way rate relationships have developed over the years. This is dealt with in the following, along with the further question it begs as to whether the present relationship is a proper one.

Historic Rate Relationship - 1FB and PBX

The statewide basis of ratemaking is the principle behind basic exchange rate philosophy. In essence, the price of basic service increases as the availability of telephones within the exchange increases.

> The unit costs associated with furnishing service do not follow this same trend, but have a decreasing cost trend as the size of the exchange increases until an exchange reaches a multi-office stage and requires interoffice trunk and tandem operation where the costs have a tendency to rise again.

The decision to structure basic rates in such a way as to foster development and recover the aggregate statewide costs from the aggregate statewide revenues is a business judgement of long standing.

When PBX service was introduced, another business judgement was made. The approach taken was to relate that portion of PBX service which connects to the exchange (trunks) to the prevailing price levels for similar basic exchange services (1FB). However, the portion of the PBX used for internal communications was not offered under the statewide theory of ratemaking but was, instead, priced upon the specific hardware costs of providing that "isolated" communications service. Therefore, even in the early days of the business (long before Centrex came into being) prevailing price per main service point (station) was cheaper for the PBX customer than it was for the individual business line subscribers.

> Value-of-service-and cost-considerations led to PBX trunk differentials above 1FB's, but the price per main service point still came out lower.

Centrex Rate History

The predecessor to Centrex was furnished by introducing higher-priced "in-dial trunks" for use with basic hardware-rated PBX's. When the feasibility of using #5 Crossbar C.O. equipment for PBX purposes was recognized, this rate approach was no longer workable since there are no identifiable customer-oriented trunks. As a consequence, the Centrex concept necessitated developing a rate structure in which the price to the customer was related to elements of service rather than hardware.

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Exhibit 123

At this point, another business judgment had to be made. Centrex could have been offered on a central office equipment-oriented basis and on a customer premises equipment-oriented basis at two significantly different levels of charge and with the customer having the option to order either. However, the judgment reached was to offer Centrex as one service with the choice of serving method being retained by the Telephone Company. This approach was aimed at protecting against early retirement of adequate and entirely usable step-by-step PBX installations and to provide the opportunity to serve customers from the central office when that method best served the needs of the business.

> A very small rate differential (typically 25-50¢ per sta.) was established for the Centrex-CO serving method, to reflect the cost of telco-provided space, power and housekeeping, which the customer provides at his expense on Centrex-CU.

Evaluation

Underlying the question of whether it is appropriate to offer Centrex-CO and individual business line service at different rate levels is the question of whether Centrex as a whole (and comparable PBX service) should be offered at rate levels below individual business service. The basic answer to this (aside from value considerations) is that there are substantial cost differences which support a difference in rate level.

> First, individual business service requires a pair per main telephone regardless of where the telephone may be located in any given exchange. On the other hand, the Centrex offering provides the Telephone Company with the option to use Centrex-CU for remote customer locations (thus saving on outside plant by trunking) and utilizing Centrex-CO for customer locations which are relatively near the serving central office.
>
> Second, the handling of Centrex-CO intercommunicating traffic within a central office is on intra-office trunk equipments, which are considerably less expensive than interoffice trunk equipments. Since the total traffic from a Centrex-CO customer invariably carries a much higher component of intra-office traffic than does that of an individual line business customer, it follows that the incremental costs of using the central office equipment are lower per ccs carried for the Centrex-CO customer.
>
> The dollar value of these differences can not be quantified from available data since exchange service cost studies do not exist.

In addition to cost considerations, there are of course value aspects. It could be reasoned that Centrex-CO stations have at least as much value as IFB's and therefore should be priced at no lower figure. If this view were taken, then it would logically follow that PBX rates should also move toward a parity with IFB. Such moves, contrary to costs, would obviously weaken us competitively and would probably be extremely difficult for us to justify with customers or regulatory authorities.

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E1246
Exhibit 123

Conclusion

There are sound reasons why the individual business line rate and the Centrex-CO rate are at different levels. The rate structure as we find it today has tended to foster development of the market while generally meeting the needs of various size customers through reasonable price levels.

The business today is in the throes of significant change. The regulatory climate, the competitive aspects of interconnection and "consumerism" are all factors which have influenced change. Until these factors become much clearer than they are now, it would seem we should stand as we are.

Looking towards the future, one aspect could change the picture, namely, if Centrex costs did in fact move up to the vicinity of IFB costs. This could occur when (or where) and if Centrex-CU phased out of the picture and the substantially higher-cost Centrex-CO serving method became universal or greatly predominant. With probably approaching 750 million dollars of step-by-step equipment still on customers' premises, this point would seem to be some years away. Nevertheless, it is probably not too soon to be thinking about such an ultimate development and the matter would seem quite properly to fall into the studies of basic service rate structures and their relevant cost relationships which the Planning Division is organizing to undertake.

RLM:jb
11/14/69

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E1247
Exhibit 123

IFB RATE BACKGROUND

"As a matter of policy, it was agreed in 1900 that business rates should be higher than those for residence even though the costs of providing the two services might be comparable." (Note 1)

"The classification of telephone service between business and residence with lower rate levels for residence service is based primarily upon the relative value to customers of telephone service in these different fields of use. Its chief purpose is to promote the maximum development of the service as a whole for the benefit of both types of customers.

> Business telephone service has a direct monetary value to the business customer since it facilitates transactions of his business. The charges for business telephone service are an incidental expense of conducting business which, along with other expenses, may be reflected in the prices of products or services sold.
>
> The residence telephone bill, on the other hand, is part of the customer's "cost of living" and the service, while useful and valuable, returns no monetary benefit.
>
> For these reasons, the business customer is able and willing to pay more for telephone service than the residence customer and is much less likely to be deterred from taking service by level of rates.
>
> Business customers also have much higher calling rates, on the average, than residence customers, indicating the greater usefulness of business service and tending to make it more costly to furnish.
>
> Accordingly, residence rates are generally lower than business for like grades of service." (Note 2)

Notes:

(1) Rate criteria in the Bell System

(2) Notes on Fundamental Principles Underlying Rates for Exchange Telephone Service

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E1248
Exhibit 123

PBX Rate Background

Rate levels for PBX's have evolved primarily using the cost of providing service as their basis. This hardware-oriented rate approach is illustrated by the following excerpt from Commercial Circular No. 2 dated December 22, 1920:

"Machine Switching Apparatus:

Careful studies of the traffic at a large number of private branch exchanges have shown great variations in the intercommunicating traffic per station, and therefore, in the requirements as to the number of selectors and connectors, with their associated apparatus, and in the size of the power plant essential to their operation. As the amount of a large part of machine switching apparatus depends directly upon the amount of traffic to be handled simultaneously, to include all equipment charges in a flat rate per station is both inequitable and uncommercial. To do so would place a restrictive burden on a low traffic system, and would result in an inducement toward the use of machine switching apparatus for heavy traffic systems. However, there are a number of pieces of apparatus, such as line switch-uprights, trunk boards, etc., which are necessary in connection with the mounting of the switching apparatus. To avoid a multiplicity of rates, the annual charges on these are distributed directly to those parts of the apparatus to which rates directly apply, in such proportions as to balance revenue trends against cost trends under all combinations of apparatus required to meet the variations in traffic conditions.

The switching mechanism, in effect a substitute for the switchboard positions and multiple in the manual system, is made up primarily of selectors and connectors, the total and relative number of which is determined chiefly by the amount of intercommunicating traffic to be handled. As these selectors and connectors visibly perform the principal functions of the operation, and their utility is obvious to the subscriber, rates have been applied to each of these pieces of mechanism directly These rates are made with consideration of the annual charges on the selectors and connectors themselves, and also of the carrying charges on the various items of necessary equipment mentioned above.

Rates for other items of equipment are designed so as to be consistent with the principal rates, and with the number of units required in connection with other parts of the apparatus. Special consideration of cost has not been given in fixing these rates."

"Standard Schedule of Monthly Rates for Subscriber Private Branch Exchange: Rates for Trunk Lines - Private Branch Exchanges of All Subscriber Classes:

Flat Rate - Business and Residence:
Both-Way Trunks - Individual Flat Line Rate, plus 50%.
Inward Trunks - Individual Line Flat Rate, minus 25%."

"They are", (rate principles)" that trunk rates must not be so high as to restrict unduly the provision of proper trunk facilities, nor station rates so high as to unduly restrict the normal expansion of terminal facilities."

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E1249
Exhibit 123

CTX Rate Development

Explicit in the CENTREX rate treatment are a number of broad rate objectives. Some of the principal ones as stated in the April 1961 Rate Development Consideration:

"1. Promote high development.

The potential customer and company benefits are large. The more development we have, the more we gain.

Centrex should not be looked upon as a luxury service to be enjoyed by a relatively small number of large customers. It is to be hoped that ultimately it will become the standard service for business customers in what is now the PBX market.

2. Yield going rate of return.

In the aggregate, the new service features should pay their own way. It appears that although costs are substantial, value-of-service is high. This is particularly so in the case of medium to large systems, where the customer can realize substantial dollar savings in operator and switchboard expense, in addition to the service advantages.

3. Make some improvement in earnings on basic PBX facilities.

Though overall earnings from services furnished PBX customers have in most Companies been at satisfactory levels, rates for some basic items (particularly switchboard positions and dial equipment) have not generally kept pace with current day cost. Therefore, it seems desirable that in establishing rates for Centrex service, it be the objective to put all of the basic components of the service on a fully compensatory basis. However, this must necessarily be done with good judgment: in some cases the gap is too large to try to close in one jump; also we must generally lift all rates (Centrex and PBX) together, because if we concentrate our earnings improvement efforts on Centrex only we will have so large an increase over PBX rates that customers may not be willing to buy.

4. Protect the individual business line rate structure.

With Centrex service (CU and CO, both), service features available to station users become very much the same as those furnished on individual business line service. (See statement of comparative service arrangements in Attachment 1 of this section).

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Indiviudal line busines rates (typically $10 - $20 per month for flat rate service) are in many places well above rate levels that could be considered marketable for Centrex station users. There is cost basis and rationale for a somewhat lower Centrex rate, but there are limits below which we probably cannot go without seriously compromising our basic schedules.

5. Remain competitive with privately-owned systems

By no means do all station users of a PBX system have requirement (from the employer's point of view) for outside communication. There are many concerns where the majority of users are in this class.

Our present rate structures recognize this by offering restricted stations of various types (including stations totally restricted to interior use) and also bridged stations. The rates generally are significantly lower than for primary stations.

If we are to avoid encouraging customers to put in private systems to serve such station users, we will have to continue to offer restricted and bridged stations at attractive rentals.

6. Establish schedules on a statewide basis.

As mentioned earlier, costs for Centrex service vary widely. If rates were based on the individual costs involved they could be unattractive to customers in some cases and not too much above conventional PBX rates in others. But the value of service remains essentially the same.

It is consistent with rate practices for basic exchange services to price Centrex service on a statewide basis, with a modest amount of "banding" to recognize variations in station availability.

7. Try to "lock in" schedules with basic exchange rates.

It is important to contemplate some mechanism for keeping Centrex rates keyed in with those of basic exchange services as rate cases and other rate activities materialize in the future. One promising possibility would be to file Centrex rates with the basic exchange rate schedules in the Companies' tariffs.

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E1251
Exhibit 123

8. Do as much rate "packaging" as possible.

Promotionally, there are important reasons for packaging all of the basic features into a single rate - and one that would look about the same whether Centrex-CU or Centrex-CO is furnished.

It should be recognized that the effect of comprehensive packaging is to "average" rates; in this case packaged on a per station basis. Such averaging on the basis of number of service "outlets" does not reflect variations in use of the service, i.e., station call rates, any more than do our rates for individual line service. The result of such a practice tends to be a somewhat better bargain for the customer requiring high call-carrying capacity. In the case of Centrex service, it is likely to mean that some low station-call-rate customers will not find the service economically attractive.

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E1252
EXHIBIT 124
August 16, 1965 letter from V.R. Schopp
to R.W. Johnson

AMERICAN OIL COMPANY

GENERAL OFFICE 910 SOUTH MICHIGAN AVENUE CHICAGO, ILLINOIS 60680

L. R. DUTY
Secretary

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
124

August 16, 1965

Subject: Federal Excise Tax On Centrex

Mr. Robert W. Johnson
National Account Manager
Illinois Bell Telephone Co.
65 East South Water Street
Chicago, Illinois

Dear Mr. Johnson:

Please refer to my letter of this same date, subject "Federal Excise Tax On Local And Toll Telephone and Teletypewriter Service."

The Centrex C.O. system in our Chicago General Office raises an additional question in connection with the application of Federal Excise Tax in the years, 1966, 1967 and 1968. With regard to Centrex systems, the report of the Senate and House Committees says:

> "However, it is understood that Centrex systems - where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber - generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service."

As we see it, a non-Centrex location will pay 3% tax in 1966, 2% in 1967 and 1% in 1968 on its local service (exchange trunks), but none on the items associated with its PBX (stations, extensions, selectors, connectors, etc.). A Centrex location, however, where tariffs combine local service with those PBX associated items, will pay those tax rates for 3 years on the entire amount. This will make a considerable difference in cost.

We ask that you separate such charges for our Centrex system after October, 1965, into a charge for local telephone service and a charge for private communication service.

Also, please advise if the Centrex principle will apply to Amoco Chemical's new ESS-101 system. If so, a similar separation of charges would reduce their costs.

Yours truly

V.R.Schopp

[illegible]

NEW YORK TELEPHONE COMPANY
LEGAL DEPARTMENT
MEMORANDUM

6/8/66

Mr. E.R. Charvat
195 Broadway - Room 1113-A.

As discussed, attached is a copy of a proposed letter to Union Carbide relating to unrestricted Centrex stations.

May we have your comments as soon as possible.

M C M
Attorney.

Att.

NEW YORK TELEPHONE COMPANY
LEGAL DEPARTMENT
MEMORANDUM

6/10/66.

Mr. R.C. Hamer
156 William Street - Room 829.

As discussed, attached is the draft of a proposed letter to Mr. Morrison.

Copies were sent to the A.T.&T. on Wednesday for review by the General Tax Attorney and General Marketing.

Any comments will be appreciated.

Attorney.

E1253
EXHIBIT 125A
Memoranda dated June 8, 1966 and June 10, 1966
from M.C. Mallory

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
USA 33a-475
(ED. 4-23-71)
125A

E1254
EXHIBIT 125B
June 8, 1966 draft

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
125B

June 8, 1966.

Mr. D. W. Morrison
Manager - Business Services
Union Carbide Corporation
270 Park Avenue
New York, N.Y. 10017

Re: Federal Excise Tax on Communications Services

Dear Mr. Morrison:

This is in reference to your question relating to the application of Federal excise tax to unrestricted Centrex stations.

Sec. 4251 of the Internal Revenue Code of 1954, as amended by Pub. Law 89-44, 79 STAT. 148, imposes a tax on the amounts paid for local telephone service, toll telephone service and teletypewriter exchange service.

Sec. 4252 of the Code defines local telephone service as follows:

> " (a) Local Telephone Service. - For purposes of this subchapter, the term 'local telephone service' means -
>
> " (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and
>
> " (2) any facility or service provided in connection with a service described in paragraph (1).

E1255
Exhibit 125B

Mr. D.M. Morrison
New York, N.Y.

> The term 'local telephone service' does not include any service which is a 'toll telephone service' or a 'private communication service' as defined in subsections (b) and (d).

Private communication service, the payment for which is not subject to tax, is defined in Sec.4252(d) as follows:

> " (d) Private Communication Service. - For purposes of this subchapter, the term 'private communication service' means -
>
> "(1) the communication service furnished to a subscriber which entitles the subscriber -
>
> " (A) to exclusive or priority use of any communication channel or groups of channels, or
>
> " (B) to the use of an intercommunication system for the subscriber's stations,
>
> regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),
>
> "(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and
>
> "(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,
>
> except that such term does not include any communication service unless a separate charge is made for such service.

A payment for ~~The term~~ "local telephone service" includes any payment of a charge that entitles the subscriber to the "access" and "privilege" described in paragraph (1) of

E1256
Exhibit 125B

subsection (a) of Section 4252. This is so even though the payment of the specific charge which entitles the subscriber to "access" and "privilege" also entitles him to other communication features. Thus, the payment of the charge for unrestricted Centrex stations is a payment which entitles the subscriber to this "access" and "privilege" together with other communication features, and is therefore considered to be payment for local telephone service. the payment for unrestricted Centrex service is not payment for ~~The term~~ "private communication service", ~~as~~ The term as defined in ~~defined in~~ Section 4252 (d) does not include any communication service "~~unless a separate charge is made for such service.~~" stet ~~Therefore, if the payment of a single charge entitles the subscriber not only to a private intercommunication system but also to~~ local telephone service, ~~toll telephone service, or teletypewriter service, no part of the payment of that single charge will be considered a payment for a private communication service. Since the charge for an unrestricted~~ stet stet stet ~~Centrex station is not a separate charge for the intercommunication system,~~ stet Therefore, the unrestricted Centrex service is ~~the~~ payment for ~~such a station constitutes~~ not a payment for "private communication service," but a payment for "local telephone service." ~~and is taxable as such.~~

The fact that unrestricted Centrex service ~~This~~ ~~matter was fully considered by the Senate~~ does not meet the "separate charge" test of ~~Finance Committee on the Excise~~ Tax Reduction Act of ~~1965~~.

~~The portion of the Committee Report covering~~ "private communication services" ~~reads in part as follows:~~ was recognized by the House Ways and Means Committee and the Senate Finance Committee. The reports of both Committees (H.R. Rep No. 433, at 31 and S. Rep No. 324, at 36) contain the following statement

Since the charge for unrestricted Centrex service is not only a charge for an intercommunication service as defined in § 4252(d) but is also a charge for the "access" and "privilege" which is local telephone service as defined in 4252(a), 4.S.

E1257

Exhibit 125B

Mr. D.W. Morrison
New York, N.Y.

> " For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems - where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber - generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service. "

In view of the above we are required to collect the tax On ~~the charge~~ payments for ~~an~~ unrestricted Centrex ~~station.~~ service.

If I can be of any further service, do not hesitate to call on me.

Very truly yours,

E1258
EXHIBIT 126
June 13, 1966 memorandum from E.R. Charvat
to R.D. Weber, copy to M.C. Mallory

June 13, 1966

MEMORANDUM for Mr. R. D. Weber,
Exchange Rate Supervisor
Planning - Rate Department

Enclosed is a draft of a letter to Union Carbide Corporation prepared by Mrs. Marion Mallory of the New York Company's Legal Department. If you have any comments with respect to the description of unrestricted Centrex service, or with respect to any other parts of the letter, please let me know at your earliest convenience.

/s/ E. R. Charvat

E. R. Charvat
Tax Attorney

Enclosure

ERC:mpl

Copy to Mrs. M. C. Mallory ✓

USA 33s - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
126 id

FPI-MI--9-24-76-80M-4417

E1259
EXHIBIT 127
June 15, 1966 letter from E.R. Charvat
to M.C. Mallory

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK 7, N.Y.

AREA CODE 212 393-9800

June 15, 1966

PLAINTIFF
EXHIBIT
U.S. DIST. COURT
S.D. OF N.Y.
127

Mrs. Marion C. Mallory, Attorney
New York Telephone Company
140 West Street
New York, New York 10007

Dear Mrs. Mallory:

This relates to your draft of a letter to the Union Carbide Corporation in which you explain why the Federal communication excise tax is billed for unrestricted Centrex service.

I have discussed your draft with Bob Weber, Exchange Rate Supervisor in the Rate Division of the Planning Department, and he agreed that there may be a marketing problem in satisfying former PBX customers who now have Centrex service. He suggested that it might be helpful to omit from your draft the language of the Committee Report which, by the use of such phrases as "as yet" and "Until such separation is made," may create the impression that the Company may amend the unrestricted Centrex tariff. I, however, agree with you that the Committee language is needed for a full explanation to Union Carbide Corporation.

I have only two specific comments with respect to your draft. First, in the first sentence of the paragraph beginning on the bottom of the second page you state that "The term 'local telephone service' includes any payment of a charge . . .", which appears to compare a service with a payment for a service. I suggest that you may wish to change that to:

> "The term 'local telephone service' includes any service which entitles the subscriber to the 'access' and 'privilege' . . . ."

or,

> "A payment for 'local telephone service' includes any payment of a charge that entitles the subscriber . . . ."

E1260
Exhibit 127

Second, in the penultimate paragraph on page four of the draft you state that ". . . we are required to tax . . . ." Actually, we are not "required to tax," but are required to collect tax as provided in § 4291 and Reg. § 49.4251-2(c).

I have also redrafted part of your letter (beginning with the first full paragraph on page three), making certain editorial changes. You may wish to consider this redraft, which is enclosed, before you prepare the letter in final form.

Yours very truly,

E. R. Charvat
Tax Attorney

Enclosure

DRAFT - ERC:mrl

E1261
Exhibit 127

The payment for unrestricted Centrex service is not payment for "private communication service." Section 4252(d) states that "private communication service" does not include any communication service "unless a separate charge is made for such service." Since the charge for unrestricted Centrex service is not only a charge for an intercommunication system, mentioned in § 4252(d), but is also a charge for the "access" and "privilege" which is "local telephone service," defined in § 4252(a), there is not a separate charge for the intercommunication system. Thus, the payment for unrestricted Centrex service is not payment for "private communication service," but is payment for "local telephone service."

The fact that unrestricted Centrex service does not meet the "separate charge" test of "private communication service" was recognized by the House Ways and Means Committee and the Senate Finance Committee. The reports of both Committees (H.R. Rep No. 433, at 31 and S. Rep. No. 324, at 36) contain the following statement:

> "For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems - where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber - generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service."

E1262
Exhibit 127

In view of the above we are required to collect the tax on payments for unrestricted Centrex service.

If I can be of any further service, do not hesitate to call on me.

Very truly yours,

E1263
EXHIBIT 128
June 22, 1966 memorandum and June 20, 1966
draft from M.C. Mallory

NEW YORK TELEPHONE COMPANY

LEGAL DEPARTMENT

June 22, 1966.

MR. C.A. DALEY
General Rate Engineer:

MR. W.B. GARVEY
Gen. Rev. Requirements Super.:

MR. E.H. MUNZ
Gen. Marketing Engineer:

The Union Carbide people have requested from Mr. Harer, Account Manager, an explanation of the application of Federal tax to unrestricted Centrex service.

The attached letter which was drafted in reply to this request has been reviewed and approved by the General Tax Attorney of the A.T.&T. It was also reviewed with Mr. Weber, Exchange Rate Supervisor in the Planning Department of A.T.&T. who suggested that the language relating to the Committee Reports be deleted. However, the General Tax Attorney concurs in our opinion that the Committee's language is needed for a full explanation to Union Carbide.

We should appreciate your comments before the letter is transmitted to Union Carbide.

Attorney

Att.

USA 33e - 475
(ED. 4-23-71)
PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

128 id

FPI-MI—9-24-75-50M-4417

E1264
Exhibit 128

June 20, 1966.

Mr. D.W. Morrison
Manager - Business Services
Union Carbide Corporation
270 Park Avenue
New York, N.Y. 10017

Re: Federal Excise Tax on Communications Services

Dear Mr. Morrison:

This is in reference to your question relating to the application of Federal excise tax to unrestricted Centrex stations.

Sec. 4251 of the Internal Revenue Code of 1954, as amended by Pub. Law 89-44, 79 STAT. 148, imposes a tax on the amounts paid for local telephone service, toll telephone service and teletypewriter exchange service.

Sec. 4252 of the Code defines local telephone service as follows:

> " (a) Local Telephone Service. - For purposes of this subchapter, the term 'local telephone service' means -
>
> > " (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and
> >
> > " (2) any facility or service provided in connection with a service described in paragraph (1).

E1265
Exhibit 128

> The term 'local telephone service' does not include any service which is a 'toll telephone service' or a 'private communication service' as defined in subsections (b) and (d).

Private communication service, the payment for which is not subject to tax, is defined in Sec.4252(d) as follows:

> " (d) Private Communication Service. - For purposes of this subchapter, the term 'private communication service' means -
>
> "(1) the communication service furnished to a subscriber which entitles the subscriber -
>
> " (A) to exclusive or priority use of any communication channel or groups of channels, or
>
> " (B) to the use of an intercommunication system for the subscriber's stations,
>
> regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),
>
> "(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and
>
> "(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,
>
> except that such term does not include any communication service unless a separate charge is made for such service.

A payment for "local telephone service" includes any payment of a charge that entitles the subscriber to the "access" and "privilege" described in paragraph (1) of

E1266
Exhibit 128

subsection (a) of Section 4252. This is so even though the payment of the specific charge which entitles the subscriber to "access" and "privilege" also entitles him to other communication features. Thus, the payment of the charge for unrestricted Centrex stations is a payment which entitles the subscriber to this "access" and "privilege" together with other communication features, and is therefore considered to be payment for local telephone service.

The payment for unrestricted Centrex service is not payment for "private communication service". This term as defined in Section 4252(d) does not include any communication service "unless a separate charge is made for such service". Since the charge for unrestricted Centrex service is not only a charge for an intercommunication service, defined in §4252(d), but also a charge for the "access" and "privilege" which is "local telephone service" defined in §4252(a), there is not a separate charge for the intercommunication system. Therefore, the payment for unrestricted Centrex service is not a payment for "private communication service" but a payment for "local telephone service".

The fact that unrestricted Centrex service does not meet the "separate charge" text of "private communication service" was recognized by the House Ways and Means Committee and the Senate Finance Committee. The reports of both Committees (H.R. Rep. No.433, at 31 and S. Rep. No.324, at 36) contain the following statement:

E1267
Exhibit 128

> " For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems - where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber - generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service."

In view of the above we are required to collect the tax on payments for unrestricted Centrex service.

If I can be of any further service, do not hesitate to call on me.

Very truly yours,

E1268
EXHIBIT 129
June 24, 1966 memorandum from
E.H. Munz to M.C. Mallory

USA 33s-475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

129

FPI-MI—9-24-75-50M-4417

NEW YORK TELEPHONE COMPANY
MARKETING DEPARTMENT

June 24, 1966

Mrs. M. C. Mallory, Attorney:

Regarding your letter of June 22, concerning the Union Carbide's request for an explanation of the application of the Federal Tax to unrestricted Centrex service, I would definitely agree with the position taken by Mr. Weber of AT&T.

It would seem to me we have provided an adequate explanation of fact without the further embellishment of Senate Finance Committee deliberations. The quote would only serve to stimulate further questions on the part of the customer. In addition, the statement made concerning Centrex systems and the locations of switching equipment is not generally true.

Therefore, I would not include any information relative to Senate Finance Committee conclusions.

I have discussed the matter with C. A. Daley, who at this moment, does not feel quite as strongly as I relative to the points made above.

E.H. Munz
General Marketing Engineer

Talked to C— who feels U.C. knows the score — thinks [illegible] reference should be made [illegible] to Sen & House debates — & suggests deleting quote but making reference [illegible] [illegible]
6/26.

Mr. [illegible] [illegible] letter [illegible] [illegible]
6/27

E1269
EXHIBIT 130
July 14, 1966 letter from M.C. Mallory
to D.W. Morrison

NEW YORK TELEPHONE COMPANY

LEGAL DEPARTMENT
140 WEST STREET
NEW YORK, N. Y. 10007

MARION C MALLORY
ATTORNEY

AREA CODE 212
394-2063

PLAINTIFF'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
130

July 14, 1966.

Mr. D.W. Morrison
Manager - Business Services
Union Carbide Corporation
270 Park Avenue
New York, N.Y. 10017

Re: Federal Excise Tax on Communications Services

Dear Mr. Morrison:

This is in reference to your question relating to the application of Federal excise tax to unrestricted Centrex stations.

Sec. 4251 of the Internal Revenue Code of 1954, as amended by Pub. Law 89-44, 79 STAT. 148, imposes a tax on the amounts paid for local telephone service, toll telephone service and teletypewriter exchange service.

Sec. 4252 of the Code defines local telephone service as follows:

> " (a) Local Telephone Service. - For purposes of this subchapter, the term 'local telephone service' means -
>
> > " (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and
> >
> > " (2) any facility or service provided in connection with a service described in paragraph (1).

E1270
Exhibit 130

The term 'local telephone service' does not include any service which is a 'toll telephone service' or a 'private communication service' as defined in subsections (b) and (d).

Private communication service, the payment for which is not subject to tax, is defined in Sec.4252(d) as follows:

" (d) Private Communication Service. - For purposes of this subchapter, the term 'private communication service' means -

"(1) the communication service furnished to a subscriber which entitles the subscriber -

" (A) to exclusive or priority use of any communication channel or groups of channels, or

" (B) to the use of an intercommunication system for the subscriber's stations,

regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),

"(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and

"(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,

except that such term does not include any communication service unless a separate charge is made for such service.

A payment for "local telephone service" includes any payment of a charge that entitles the subscriber to the "access" and "privilege" described in paragraph (1) of

E1271
Exhibit 130

subsection (a) of Section 4252. This is so even though the payment of the specific charge which entitles the subscriber to "access" and "privilege" also entitles him to other communication features. Thus, the payment of the charge for unrestricted Centrex stations is a payment which entitles the subscriber to this "access" and "privilege" together with other communication features, and is therefore considered to be payment for local telephone service.

The payment for unrestricted Centrex service is not payment for "private communication service". This term as defined in Section 4252(d) does not include any communication service "unless a separate charge is made for such service". Since the charge for unrestricted Centrex service is not only a charge for an intercommunication service, defined in §4252(d), but also a charge for the "access" and "privilege" which is "local telephone service" defined in §4252(a), there is not a separate charge for the intercommunication system. Therefore, the payment for unrestricted Centrex service is not a payment for "private communication service" but a payment for "local telephone service".

The fact that unrestricted Centrex service does not meet the "separate charge" test of "private communication service" was recognized by the House Ways and Means Committee and the Senate Finance Committee (H.R. Rep. No.433, at 31 and S. Rep. No.324, at 36).

E1272
Exhibit 130

Mr. D.W. Morrison
New York, N.Y.

In view of the above we are required to collect the tax on payments for unrestricted Centrex service.

If I can be of any further service, do not hesitate to call on me.

Very truly yours,

M. C. Mallory

E1273
EXHIBIT 131
January 30, 1967 letter from E.J. Renfro
received by H.L. Engelmann

"For Counsel Use Only." JAN 31 1967

Monsanto
COMPANY

800 N. Lindbergh Boulevard
St. Louis, Missouri 63166
(314) OXford 4-1000

USA 33e-475
(ED. 4-23-71)
PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

131 id

FPI-MI—9-26-75-50M-4417

January 30, 1967

Mr. H. L. Engelmann
Southwestern Bell Telephone Co.
800 N. Lindbergh Blvd.
St. Louis, Missouri 63166

Dear Herb:

Your assistance in procurring a reconfirmation of the application of Federal taxes to Centrex station equipment is urgently requested.

As you know, Herb, our position is that even though we now have D.I.D. service, our stations are continuing to be accessed by operators for at least 20% of the incoming calls. Moreover, we did have D.I.D. calls from our PLD Network for company calls.

Please let us have your reply as soon as possible.

Very truly yours,

E. J. Renfro
Manager, Communications

Herb
This needs [illegible] justification that [illegible] [illegible] [illegible] [illegible]
1d

E1274
EXHIBIT 132
February 22, 1967 memorandum from General
Commercial Manager - St. Louis

M-3.06 - CENTREX Tax Application - Monsanto Company
C-8.227

Mr Scott
Please file
excise tax

Mr Carter
What about this factor of tax in packaging?
[illegible]

Mr Jones 2-23
What has been done on this?
[illegible] 2/23

St. Louis, February 22, 1967

COMMERCIAL OPERATIONS ENGINEER - St. Louis:

GENERAL MERCHANDISING MANAGER - St. Louis:

The Monsanto Company has questioned whether Federal tax is justifiably applicable on their recently installed CENTREX stations. The amount of tax in question is approximately $3,000.00 monthly.

This tax application was mentioned in our letter of January 31, 1967, "C-8.227 - PBX - General-Private Branch Exchange Service Packaging." We pointed out then that it would be very difficult to explain the taxation of stations.

It is our understanding that Monsanto attorneys plan to pursue this matter. We have also been asked to intercede for them in the elimination of this tax. May we have your assistance.

General Commercial Manager

CC: GENERAL ATTORNEY - St. Louis

USA 33e-475
ED. 4-23-71
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
132 id
FPI-MI—9-24-75-50M-4417

E1275
EXHIBIT 133
March 1, 1967 memorandum from General Merchandising
Manager - St. Louis and Commercial
Operations Engineer - St. Louis

M-3.06 "For Counsel Use Only"
M-S.227 - Centrex Tax Application - Monsanto Company

NOTED
Com'l. Engineer
Com'l. Supervisor
Com'l. P. Supr.
Directory Manager
Gen'l. Sls. & Serv. Mgr.

Mr. Engelmann
FYI
WOD

Mr. Rowe!

St. Louis, March 1, 1967

GENERAL COMMERCIAL MANAGER - St. Louis:

This is in regard to your letter dated February 22, 1967, "Centrex Tax Application - Monsanto Company". We are investigating the application of taxes on Centrex services with our AT&T coordinates. We hope to have an answer this week as to the possible elimination of this tax.

We will be in touch with you as soon as we have some positive information to furnish.

General Merchandising Manager

Commercial Operations Engineer

USA 33a - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
133 id

FPI-MI—9-24-75-50M-4417

E1276
EXHIBIT 135
March 14, 1967 memorandum signed for General
Merchandising Manager - St. Louis

M-3.06
M-S.227 - Centrex Tax Application - Monsanto Company, St. Louis

"For Counsel Use Only"

NOTED

Com'l. Engineer
Com'l. Supervisor
Com'l. Pers. Supvr.
Directory Manager
Gen'l. Sls. & Serv. Mgr.

St. Louis, March 14, 1967

GENERAL COMMERCIAL MANAGER - St. Louis:

This is in regard to our letter of March 1, 1967 - Federal Excise Tax on Centrex Service - Monsanto Company - St. Louis. We have had several meetings with our Comptroller and Legal people to discuss this matter. The Comptroller's Organization has talked to AT&T and we have also discussed this with our AT&T Coordinates. Here is generally the way the matter stands at this time.

The entire Bell System Associated Companies charge for Centrex service in the same manner; i.e., A single monthly charge on a Centrex station. There is no separation between trunks, switching equipment and stations. The federal tax law, which we have attached a copy for your information, specifically says a tax will apply on these Centrex stations.

Now, at this time, AT&T does not feel the climate is right to try to get the tax law changed. This is the only way the tax could be eliminated. However, under the present law, the tax will drop from 10% to 1% on April 1, 1968 and be completely eliminated April 1, 1969. We suggest this is the approach that should be taken in answering Monsanto.

If Monsanto's attorneys would decide to pursue this matter on their own, we would definitely be interested in what results they might obtain.

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
135

R. E.
for General Merchandising Manager

Attachment

E1277
Exhibit 135

L
A
W

(b) Termination of Tax.—The tax imposed by subsection (a) shall not apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

(c) Special Rule.—*For purposes of subsection (a), in the case of communications services rendered before February 1, 1968, for which a bill has not been rendered before April 1, 1968, a bill shall be treated as having been first rendered on March 31, 1968. For purposes of subsections (a) and (b), in the case of communications services rendered after January 31, 1968, and before November 1, 1968, for which a bill has not been rendered before January 1, 1969, a bill shall be treated as having been first rendered on December 31, 1968.*

[¶ 189,605] CODE SEC. 4252. DEFINITIONS.

(a)[1] *Local Telephone Service.*—For purposes of this subchapter, the term "local telephone service" means—

[Footnote ¶ 189,604] Matter in *italics* in Sec. 4251(a)(2) added by section 202(a)(1), Tax Adjustment Act of 1966, which struck out:

(1)	"During 1966	3
	During 1967	2
	During 1968	1"

Matter in *italics* in Sec. 4251(c) added by section 202(a)(2), Tax Adjustment Act of 1966, which struck out:

(2) "For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated has having been first rendered during such year."

Effective date (Sec. 202(c), Tax Adjustment Act of 1966).—The above amendments apply to amounts paid pursuant to bills first rendered on or after April 1, 1966 for services rendered on or after such date. In the case of amounts paid pursuant to bills rendered on or after such date for services which were rendered before such date and for which no previous bill was rendered, such amendments shall apply except with respect to such services as were rendered more than 2 months before such date. In the case of services rendered more than 2 months before such date, the provisions of subchapter B of chapter 33 of the Code in effect at the time such services were rendered, subject to the provision of section 701(b)(2) of the Excise Tax Reduction Act of 1965, shall apply to the amounts paid for such services.

[Footnote ¶ 189,605] Matter in *italics* added by section 302, Excise Tax Reduction Act of 1965, which struck out:

[illegible]

PROTECTED

E1278
Exhibit 135

(1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and

(2) any facility or service provided in connection with a service described in paragraph (1).

The term "local telephone service" does not include any service which is a "toll telephone service" or a "private communication service" as defined in subsections (b) and (d).

(b) Toll Telephone Service.—For purposes of this subchapter, the term "toll telephone service" means—

(1) a telephonic quality communication for which (A) there is a toll charge which varies in amount with the distance and elapsed transmission time of each individual communication and (B) the charge is paid within the United States, and

(2) a service which entitles the subscriber, upon payment of a periodic charge (determined as a flat amount or upon the basis of total elapsed transmission time), to the privilege of an unlimited number of telephonic communications to or from all or a substantial portion of the persons having telephone or radio-telephone stations in a specified area which is outside the local telephone system area in which the station provided with this service is located.

(c) Teletypewriter Exchange Service.—For purposes of this subchapter,

---

[Footnote ¶ 189,605 continued]

(1) "General Telephone Service.—For purposes of this subchapter, the term "general telephone service" means any telephone or radio telephone service furnished in connection with any fixed or mobile telephone or radio telephone station which may be connected (directly or indirectly) to an exchange operated by a person engaged in the business of furnishing communication service, if by means of such connection communication may be established with any other fixed or mobile telephone or radio telephone station. Without limiting the preceding sentence, any service described therein shall be treated as including the use of—

(1) any private branch exchange (and any fixed or mobile telephone or radio telephone station connected, directly or indirectly, with such an exchange), and

(2) any tie line or extension line.

The term "general telephone service" does not include any service which is toll telephone service or wire and equipment service.

(b) Toll Telephone Service.—For purposes of this subchapter, the term "toll telephone service" means a telephone or radio telephone message or conversation for which (1) there is a toll charge, and (2) the charge is paid within the United States.

(c) Telegraph Service.—For purposes of this subchapter, the term "telegraph service" means a telegram, cable, or radio dispatch or message for which the charge is paid within the United States.

(d) Teletypewriter Exchange Service.—For purposes of this subchapter, the term "teletypewriter exchange service" means any service where a teletypewriter (or similar device) may be connected (directly or indirectly) to an exchange operated by a person engaged in the business of furnishing communication service, if by means of such connection communication may be established with any other teletypewriter (or similar device).

(e) Wire Mileage Service.—For purposes of this subchapter, the term "wire mileage service" means—

(1) any telephone or radiotelephone service not used in the conduct of a trade or business, and

(2) any other wire or radio circuit service not used in the conduct of a trade or business,

not included in any other subsection of this section; except that such term does not include service used exclusively in furnishing wire and equipment service.

(f) Wire and Equipment Service.—For purposes of this subchapter, the term "wire and equipment service" includes stock quotation and information services, burglar alarm or fire alarm service, and all other similar services (whether or not oral transmission is involved). Such term does not include teletypewriter exchange service."

Effective date (Sec. 701(b)(2), Excise Tax Reduction Act of 1965).—See Footnote ¶ 165,163.

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PROTECTED

E1279
Exhibit 135

the term "teletypewriter exchange service" means the access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part, and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations constituting a part of the same teletypewriter exchange system, to which the subscriber is entitled upon payment of a charge or charges (whether such charge or charges are determined as a flat periodic amount, on the basis of distance and elapsed transmission time, or in some other manner). The term "teletypewriter exchange service" does not include any service which is "local telephone service" as defined in subsection (a).

(d) Private Communication Service.—For purposes of this subchapter, the term "private communication service" means—

(1) the communication service furnished to a subscriber which entitles the subscriber—

(A) to exclusive or priority use of any communication channel or groups of channels, or

(B) to the use of an intercommunication system for the subscriber's stations,

regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c).

(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and

(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,

except that such term does not include any communication service unless a separate charge is made for such service.

[¶ 189,606] CODE SEC. 4254. COMPUTATION OF TAX.

(a) General Rule.—If a bill is rendered the taxpayer for [1]*local* telephone service [2]*or toll telephone service*[3]—

(1) the amount on which the tax with respect to such services shall be based shall be the sum of all charges for such services included in the bill; except that

(2) if the person who renders the bill groups individual items for purposes of rendering the bill and computing the tax, then (A) the amount on which the tax with respect to each such group shall be based shall be the sum of all items within that group, and (B) the tax on the remaining items not included in any such group shall be based on the charge for each item separately.

(b) Where Payment Is Made for Toll Telephone Service[3] in Coin-Operated Telephones.—If the tax imposed by section 4251 with respect to toll telephone service[3] is paid by inserting coins in coin-operated telephones, tax shall be computed to the nearest multiple of 5 cents, except that, where the tax is midway between multiples of 5 cents, the next higher multiple shall apply.

[Footnote ¶ 189,606] Matter in italics added by section 302, Excise Tax Reduction Act of 1965, which struck out:

(1) "general"
(2) comma
(3) ", or telegraph service"

Effective date (Sec. 701(b)(2), Excise Tax Reduction Act of 1965).—See Footnote ¶ 155,125.

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E1280
Exhibit 135

1 percent for amounts paid pursuant to bills first rendered on or after January 1, 1968, and before January 1, 1969.

The tax is not to apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

In applying the new tax rates referred to above, in the case of communication services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill is to be treated as having been first rendered during such year. The existing 10 percent tax rate will continue to apply in the case of bills first rendered before January 1, 1966 (whether the services are rendered before, on, or after such date), and in the case of communication services rendered before November 1, 1965, even though the bill is first rendered on or after January 1, 1966.

The definitions of local telephone service (previously general telephone service), toll telephone service, and teletypewriter exchange service have been updated and modified to make it clear that it is the service as such which is being taxed and not merely the equipment being supplied. Thus, in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of telephonic quality communication which is taxed together with facilities or services provided with this service. Toll telephone service is defined as being a telephonic quality communication for which a toll charge is made which varies in amount with the distance and the lapsed transmission time of individual communications, but only if the charge is paid within the United States. Also included in this definition of toll telephone service is WATS (wide area telephone service). This is a long-distance service whereby, for a flat charge, the subscriber is entitled to make unlimited calls within a defined area (sometimes limited as to the maximum number of hours). A teletypewriter exchange service is defined as access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations in the same exchange system.

It is estimated that the reduction of the tax rate from 10 to 3 percent effective January 1, 1966, will result in a revenue loss of $639 million in a full year of operation. The elimination of the remaining 3 percentage points of tax over the next 3 years, it is estimated, will result in an additional revenue loss of $274 million when fully effective.

(b) *Private communications services.*—Under present law, a private line or a private intercommunications system such as a private intercommunication system set up for a single subscriber (such as a PBX system or Centrex service) is taxed as a part of general telephone service if the telephones in this system have access [illegible] the local exchange system.

This has presented problems under present law because of competition from untaxed private equipment performing similar services. The telephone companies presently are losing intrapremise business (and interpremise business within local areas) to those providing telephone and microwave equipment which can be purchased and operated by the users themselves. Installation of equipment in this manner is accompanied by a reduction in the service from the local telephone company. Businesses installing their own internal com-

E1281
Exhibit 135

munications systems in this manner avoid the tax on the telephone company's charge for both equipment and services. With the ever-increasing number of varied services which modern science makes it possible for telephone companies to provide, the tax on private communication systems represents a severe competitive handicap to the expanded use of these new and varied services.

For the reasons indicated above, your committee's bill provides an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems—where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber—generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service.

The definition of a private communication service refers to a communication service where a subscriber is entitled to the exclusive or priority use of a communication channel or groups of channels. This is sometimes referred to as a private line. The reference to an intercommunications system is intended to refer to a private exchange system for a single subscriber and thus to cover private PBX systems (whether or not they have in-dialing). Included in the definition of a private communication system is channel mileage for communication between a telephone station located outside a local exchange system and a central office in such local telephone system, if a separate charge is made for this service.

This exemption is to take effect as of January 1, 1966.

It is estimated that repeal of the tax on private communication services will reduce revenues by $130 million in a full year of operation.

(c) *Telegraph service and wire and equipment service.*—Telegraph service presently is subject to a tax of 10 percent of the amount paid while a tax of 8 percent is imposed on wire and equipment service. Wire and equipment service includes stock quotation and information services, burglar alarm and fire alarm service, and similar services.

In the case of telegraph service, the present tax presents an added handicap to an industry which has been experiencing a decline in business for a long period of time. The tax on wire and equipment service not only taxes the communication feature of the service, but other services provided as well. Moreover, in many cases, the services provided are in competition with similar services provided on a tax-free basis.

Because of the factors indicated above, your committee's bill repeals the tax on telegraph service and wire and equipment service effective January 1, 1966.

The repeal of the tax on telegraph service is expected to result in a revenue loss of $17 million a year when fully effective, and the repeal of the wire and equipment service tax is expected to result in an annual revonue loss of $15 million a year.

Code §4251 **Bill §302**

PROTECTED

E1282
EXHIBIT 136
March 28, 1967 letter from
T.B. Luzon to B. Smith

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK, N. Y. 10007

AREA CODE 212 393-4351

T. B. LUZON
MARKET PLANNING ADMINISTRATOR

March 28, 1967

~~Mr. Jones 3-27~~
Mr. Custer 3/31

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
136

Mr. Ben Smith, General Merchandising Manager
Southwestern Bell Telephone Company
1010 Pine Street
St. Louis, 1, Missouri

Dear Ben:

We referred your letter regarding the Monsanto Company excise tax problem to Mr. C. E. Erickson, Supervising Tax Accountant in our Comptroller's Department. He was already aware of the problem and had discussed the tax rules applicable to the situation with Mr. T. C. Rostrom of your Comptrollers.

In essence, Congress (over our strong objection) has dictated that until the charges for unrestricted Centrex stations can be separated between trunk and station charges (similar to PBX) the entire unrestricted station charge is subject to tax. If such a separation were achieved, this would, of course, require tariff changes.

We have discussed the rate and tariff aspect with our Exchange Rate Supervisor, Mr. R. D. Weber. He has advised us that this matter was discussed with the Companies at the time of the tax law changes, and it was the general view that such a major change in Centrex pricing structure was not justified purely to accommodate a customer tax advantage.

If you have any questions, or are able to determine the customers' further intentions, I know both Mr. Weber and Mr. Schultz of my staff would be most interested.

Yours very truly,

TB Luzon
Market Planning Administrator

PROTECTED

E1283
EXHIBIT 137
June 15, 1967 letter from E.J. Renfro
to H. L. Engelmann

Monsanto
COMPANY

800 N. Lindbergh Boulevard
St. Louis, Missouri 63166
(314) OXford 4-1000

USA 33a-475
(ED. 4-23-71)

NTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

137 ~~id~~

FPI-MI—9-24-75-50M-4417

June 15, 1967

Mr. H. L. Engelmann
Southwestern Bell Telephone Co.
800 N. Lindbergh Blvd.
St. Louis, Missouri 63166

Dear Herb:

As you know, Herb, we have been trying to find relief from the tax burden on Centrex since its installation in December. According to our legal advisors, such relief can be obtained by your company providing a separate charge for "private communications service."

Would you immediately separate our billing so that we can find immediate relief from the tax.

According to the Senate Finance Committee's report, after discussing the competitive disadvantage of the telephone company in providing business communications systems because of the excise tax applicable under the old law, it was noted: "Both the House bill and your Committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that the private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems--where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber--generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, would not apply in the case of Centrex service."

E1284
Exhibit 137

It appears as though we could have received exemption from the tax from the date of installation in December if the billing had been separated. During the period our Centrex service has been in operation, we have incurred approximately $25,000 unnecessary tax expense because of this peculiarity in the billing process. From our viewpoint, therefore, we feel immediate attention is required by your company to preclude continuation of this tax expense.

From our discussion this morning I have the distinct impression that resolution of this issue involves a policy decision by your company and necessitates, perhaps, filing a revised tariff with the Missouri Public Service Commission. I assume this whole process can be accomplished in a very short period of time.

Would you please advise, as soon as possible, when you have resolved your company's policy position and what action is planned, if any, concerning the revised tariff filing.

Cordially yours,

E. J. Renfro
Manager, Communications

/ld

cc R. K. Flitcraft

E1285
EXHIBIT 138
June 16, 1967 memorandum from W.O. Douglass

M-3.05 - Major Accounts - Monsanto Company - CA 4-1000 - Tax for Centrex Service

"For Counsel Use Only"

Creve Coeur, Missouri
June 16, 1967

DIVISION SALES & SERVICE MANAGER - East Sales:

A copy of a letter dated June 15, 1967 from Monsanto Company regarding the 10% federal tax on Centrex service is attached. You are aware of previous correspondence about this tax.

Monsanto is in essence requesting that we apply a specific charge for the central office trunks associated with the Centrex service. It is their contention that switchboard systems are not liable to the 10% federal tax because the charges for trunks and the stations and station gear are separate. Monsanto uses as a basis for its request the first paragraph on page 31 of the Excise Tax Reduction Act of 1966. A copy of the page is attached for your information. The last sentence in the paragraph reads; "Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service."

Monsanto says that we of the Telephone Company because of our rate structure impose an unfair tax upon the users of Centrex service because of our failure to make the above separation.

We informed them that system wise Centrex was priced in this way and we were reminded that the tariff filing applicable applied only, as far as they were concerned, to the state of Missouri.

We would like to have some indication as to our company policy and position on this matter by June 26.

(Sgd.) Wm. O. Douglass

District Sales & Service Manager

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
138

E1286
EXHIBIT 141
July 11, 1967 memorandum from H.E. Jones

Mr. [illegible]
[illegible] ~~Scott~~

M-3.05 - Major Accounts - Monsanto Company, St. Louis

CC - COMMERCIAL OPERATIONS ENGINEER - Room 2020:
GENERAL SOLICITOR - Room 2305:
ASSISTANT COMPTROLLER-GENERAL - Room 1730: ✓

St. Louis, July 11, 1967

GENERAL COMMERCIAL MANAGER - St. Louis:

This is in regard to your letter of June 23, 1967, Major Accounts - Monsanto Company.

It has caused us much concern that the Monsanto Company is continuing to complain about the excise tax applied to their Centrex Service. We have again discussed this with the American Telephone and Telegraph Company Marketing and Comptroller's organizations with no solution at that point.

We have also discussed the problem with our Headquarters Accounting, Legal, Traffic, Engineering and Commercial and here are the conclusions reached here:

1. Repricing or rerating Centrex or any service to avoid or relieve a customer from paying tax should not be attempted. Congress was aware and familiar with Centrex Service when they wrote the law and specifically imposed a tax on this service.

2. Centrex Service was an offering before this law was enacted. We feel the customer's appeal in this case should be to Congress, not to the Telephone Company. As mentioned in Paragraph 3 of your letter, the rate structure was there before the law was enacted, and we the Company have not imposed an unfair tax upon the users of Centrex Service.

3. If we did rerate this service, then would we rerate all services everytime a tax law is enacted or a customer complains that his tax is too much? No - we don't think we could. Pretty soon the government would be on us for aiding customers to avoid paying taxes.

We suggest that your sales people explain the position of our Company on this matter and resolve the complaint.

SGD. H. E. JONES

General Merchandising Manager

PLTF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
141

"For Counsel Use Only"

E1287
EXHIBIT 142
August 4, 1967 letter from H.L. Engelmann
to E.J. Renfro

August 4, 1967

Mr. E. J. Renfro
Monsanto Company
800 N. Lindbergh Blvd.
St. Louis, Missouri 63166

Dear Ed:

This refers to previous correspondence and discussions regarding the excise tax applied on Centrex Service.

As I informed you, this subject has been thoroughly reviewed with our people. In addition, your request has been covered in detail with the American Company.

It is the consensus that no change should be made in our rate structure at this time.

Sincerely,

H. L. Engelmann
Account Manager

USA 33a - 475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

142 id

FPI MI—9-24-78-50M-4417

Call from chief Attorney —
Explained we could do nothing
at this time — suggests he contact
Fed people - thought the law
changed.

E1288
EXHIBIT 143
June 12, 1968 memorandum from G.J. Hartman
to B. L. Agnew

June 12, 1968

MR. AGNEW:

Re: Application of Federal Excise Tax to Centrex Service

The following points are some of the arguments which support our position of not revising Centrex rates to separate the revenue requirements for trunks from the station charges to permit tax treatment to be applied the same as for PBX service. Our position is fully supported by A. T. & T.:

1. Such treatment would be contrary to the concept of packaged rates.
2. The rate treatment would be based on a tax structure that is, to some extent, flexible and subject to future regulation change.
3. Several of the System Companies would not be in a position to make this change. Further tariff revisions would be required in all states wishing to make such a change and state commissions would have to review all such filings.
4. There are legal aspects in developing a rate structure of a type that is designed to circumvent the payment of Federal taxes.
5. We cannot separate trunk charges with Centrex CO service.
6. It would be difficult for Centrex CO customers to understand the basis for a "trunk" charge.
7. The tax factor would introduce one more consideration which would result in customer pressure for either Centrex CO or CU service.
8. The separation of Centrex CU only would weaken our "one Centrex offering" concept.

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
143 id

PROTECTED

E1289
Exhibit 143

9. Separation for Centrex service would lead to charges of preferential treatment for large customers, i.e., why not separate business and residence exchange line service between the line charge and the station charge.

You will realize that all of the above are not suitable for direct presentation to the customer. Your good judgment in reviewing the above with our field people is recognized.

S J

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E1290
EXHIBIT 144
August 22, 1968 letter from A.T. Wacker
to J. Curren

Talked to H. [illegible] (AT&T)
as to [illegible] of Bell System - any
chance of tariff change so that
more advantageous tax treatment can
apply - H.C. says no - tariff
people aren't about to
change. -
[illegible]
HCM
10/3/68.

Mobil Oil Corporation

150 EAST 42ND STREET
NEW YORK, NEW YORK 10017

August 22, 1968

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
144

Mr. J. Curren
New York Telephone Company
225 Broadway
New York, New York 10007

FEDERAL TAXES

Dear John:

As discussed with you recently, we have had considerable difficulty in trying to reconcile our Centrex bill with our former Oxford 7-4200 invoice. We have just concluded a detailed analysis, which at least gives us a sound basis for discussion and negotiation.

We were amazed to find that the taxes on our main billing increased approximately $2500. per month, of which about $1900. represents an increase in the Federal Excise tax. The explanation given to us by the business office is that all Centrex lines are subject to Federal Taxes because they are considered trunk lines. Since approximately $25,000 annually is involved, we request the telephone company to investigate this item carefully and determine:

1. Whether or not there is any justification for this different treatment, and

2. The responsibility of the telephone company for including this item as part of the economic evaluation of any Centrex proposal.

Concerning the first item, we do not believe there is any substantial difference to us as, the customer, between Centrex lines and 701 outgoing trunk lines. DDD is available under both systems, and the only difference noted by the user would be at those times when he might find the entire out-going trunk group busy. Presumably "trunks" are subject to Federal tax because they have access to calls beyond local boundaries. It is our contention that lines in a Centrex CO system are used most of the time for intraoffice calling; and, therefore, should not be subject

E1291
Exhibit 144

to Federal tax in any greater percentage than the comparable 701 rator of trunks to dial equipment.

Concerning the second item, we have carefully reviewed all of the various Centrex proposals brought to us by the New York Telephone Company and are unable to find any reference to an added cost to us for increased Federal Taxes.

Your prompt attention to this matter will be appreciated.

Yours very truly,

A T Wacker

A. T. Wacker
Manager, Communications

ATW:gel

cc:
C. J. Johnson

EXHIBIT 146
April 8, 1969 letter from
J. Curren to A.T. Wacker

USA 88a-675
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

146 id

FPI MI—9-24-75-50M-4417

New York Telephone Company
225 Broadway, New York, N. Y. 10007
Area Code 212 394-4141

April 8, 1969

Mr. A. T. Wacker
Mobil Oil Corporation
150 East 42 Street
New York, New York 10017

Re: Federal Excise Tax on Communications Services

Dear Al:

In accordance with our prior discussions, I have had a full examination made by our Headquarters Legal and Revenues Departments as to your question concerning the applicability of the 10% Federal Excise Tax to unrestricted Centrex lines.

Our review of the language and legislative history of the applicable provisions of Sections 4251 and 4252 of the Internal Revenue Code indicates clearly that we are required to collect the tax on payments for such service. This conclusion is based on the analysis of the code provisions set forth below:

Sect. 4251 of the Internal Revenue Code of 1954, as amended, imposes a tax on the amounts paid for local telephone service, toll telephone service and teletypewriter exchange service.

Sec. 4252 of the Code defines local telephone service as follows:

> " (a) Local Telephone Service. - For purposes of this subchapter, the term 'local telephone service' means -
>
> " (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and
>
> " (2) any facility or service provided in connection with a service described in paragraph (1).

Exhibit 146

The term 'local telephone service' does not include any service which is a 'toll telephone service' or a 'private communication service' as defined in subsections (b) and (d).

Private communication service, the payment for which is not subject to tax, is defined in Sec. 4252 (d) as follows:

> " (d) Private Communication Service. - For purposes of this subchapter, the term 'private communication service' means -
>
> " (1) the communication service furnished to a subscriber which entitles the subscriber -
>
> " (A) to exclusive or priority use of any communication channel or groups of channels, or
>
> " (B) to the use of an intercommunication system for the subscriber's stations,
>
> regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),
>
> " (2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels, or systems described in paragraph (1), and
>
> " (3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,
>
> except that such term does not include any communication service unless a separate charge is made for such service.

A payment for "local telephone service" includes any payment of a charge that entitles the subscriber to the "access" and "privilege" described in paragraph (1) of subsection (a) of Section 4252. This is so even though the payment of the specific charge which entitles the subscriber to "access" and "privilege" also entitles him to other communication features. Thus, the payment of the charge for unrestricted Centrex stations is a payment which entitles the subscriber to this "access" and "privilege" together with other communication features, and is therefore considered to be payment for local telephone service.

The payment for unrestricted Centrex service is not payment for "private communication service". This term as defined in Section 4252 (d) does not include any communication service "unless a separate charge is made for such service". Since the charge for unrestricted Centrex service is not only a charge for intercommunication service, defined in 4252(d), but also a charge for the "access" and "privilege"

E1294

Exhibit 146

which is "local telephone service" defined in 4252(a), there is not a separate charge for the intercommunication system. Therefore, the payment for unrestricted Centrex service is not a payment for "private communication service" but a payment for "local telephone service".

The fact that unrestricted Centrex service does not meet the "separate charge" test of "private communication service" was recognized by the House Ways and Means Committee and the Senate Finance Committee (H. R. Rep. No. 433, at 31 and S. Rep. No. 324, at 36).

As I have mentioned to you in our discussions, I am extremely sorry that, at the time you took this service, you were not made fully aware of the applicability of this tax.

If you have any further questions regarding this matter please contact me.

Very truly yours,

J. Curren
Account Manager

JC:jvt

EXHIBIT 147
April 8, 1968 letter from B.C. Williams
to R.M. Fehlen

OWENS-CORNING FIBERGLAS CORPORATION
GENERAL OFFICES • TOLEDO, OHIO 43601

Ellis.
Do we have an answer for this?
[illegible]

April 8, 1968

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
147

Mr. Robert M. Fehlen
Communications [illegible]
The Ohio Bell Telephone Company
121 Huron Street
Toledo, Ohio 43601

Dear Bob:

Attached is an excerpt from the Senate Committee Report PL 89-44 which applies to excise tax on communications. This report is made available to us by our Legal Department.

You will note the margin marked relating to Private Communication Services, and an underscored sentence relating particularly to Centrex.

It appears to us that the underscored sentence is instructions by the Senate Committee for American Telephone & Telegraph and Associates to devise a method of billing to allow excise exemption of certain portions of the Centrex system you are installing for us in the new building.

Since this directive is over two years old, we assume that there has been adequate time for consideration, and that you will soon be informing us of the billing change to exercise this allowed exemption.

Very truly yours,

OWENS-CORNING FIBERGLAS CORPORATION

Bruce C. Williams
Office Manager

BCW/sd
Attachment

[illegible]

E1296
EXHIBIT 148
May 27, 1968 memorandum from
R.F. Lynd to E.D. Clouse

SUBJECT CENTREX SYSTEMS - Owen-Corning Fiberglas - Tax

FORM 501-A (9-64)

USA 33s - 475
(ED. 4-23-71)

ENTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

148 ipd

FPI-MI—9 24 78- 7-4417

OHIO BELL

TELEPHONE ______________________

FILE NO. M4.0

Columbus, Ohio 43215
May 27, 1968

Mr. E. D. Clouse
Division Sales Manager
Toledo, Ohio

I am replying to your letter of April 15, 1968 to which you attached Bruce Williams' letter of April 8, 1968.

We have consulted the General Commercial people here who deal with tax matters and also have discussed the Owens-Corning Fiberglas case with our tax experts in the Data Group in Cleveland.

As you already know, at the present time Owens-Corning is paying excise tax only on the central office trunks furnished to them.

On Centrex (C.O.) Systems excise tax is charged for all unrestricted and semi-restricted stations. The tax will also apply to certain station equipments (i.e., key telephone, speakerphone, etc.) associated with main stations.

We have no instructions from the U.S. Government to make any division of Centrex services for tax purposes.

The excerpts from the Senate Committee Report Mr. Williams sent to you are not considered a "directive" by our Company. There are no plans under way at the present time [illegible] any "separation" in the Centrex (C.O.) System for tax pu[illegible]

Marketing Supervisor

E1297
EXHIBIT 149
June 26, 1968 letter from B.L. Williams
to E.D. Clouse

OWENS-CORNING FIBERGLAS CORPORATION
GENERAL OFFICES • TOLEDO, OHIO 43601

USA 33a - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
149
149
FPI-MI—J-24-75-50M-4417

June 26, 1968

Mr. E. D. Clouse
Division Sales Manager
Ohio Bell Telephone Company
121 Huron Street
Toledo, Ohio

Dear Mr. Clouse:

Thank you for Mr. R. F. Lynd's letter of May 27, 1968 concerning the proposed Centrex System for the Fiberglas Tower. Our question is basically very simple. Could your Company render two bills for the Centrex System - one for outside calls and the other for internal communications?

If the federal excise tax on reduction on telephone calls had gone into effect as scheduled on April 1, 1968, perhaps there would have been no need for such separate billings. However, with the Revenue and Expenditure Control Act of 1968 extending the 10% tax, the lack of separate billings becomes a substantial additional cost when compared to alternative systems.

Very truly yours,

OWENS-CORNING FIBERGLAS CORPORATION

Bruce C. Williams

Bruce C. Williams
Office Manager

BCW/sd

FIBERGLAS

E1296
EXHIBIT 150
August 12, 1968 memorandum from
J.T. Alter to E.D. Clouse

M. Quinn
This was in Bob
Fehlen's personnel folder
J

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
150

August 12, 1968

Mr. E. D. Clouse
Division Sales Manager
Toledo, Ohio 43601

On August 8, 1968, Bob Fehlen and I made a joint contact at Owens - Corning Fiberglas. During the discussion of several items, Mr. Clark Troutman expressed OCF's concern about the 10% Excise Tax as it applies to Centrex. For Owens - Corning, this means a substantial increase in taxes with Centrex over what they are presently paying with the 701 System.

As you know, this topic has been discussed previously and our answer was that we have not been instructed by the U.S. Government to make any separation of Centrex Services for tax purposes. (See Mr. Lynd's letter of May 27, 1968, File M4.0)

The Senate Committee Report provided to us by Mr. Troutman (attached) states that the tax situation will not change until a separation is made, but neglects to point out who has the responsibility of making this separation.

Owens - Corning feels this responsibility should fall on the telephone company for the following reasons: 1. We should be responsible to see that our customers are not discriminated against from a tax standpoint, because of services which we provide. 2. Because of our expertise in understanding the equipment and the services, we should be in a position to recommend a separation which would be fair to all customers faced with the same situation, not just Owens - Corning. 3. Because of our knowledge of the Excise Tax structure and our experience in applying it to our services in the past, we ought to have people and resources in the Bell System much better equipped to deal with the Government on this matter than individual subscribers would have.

Mr. Troutman understands we cannot make a physical separation in the equipment charges and apply taxes to portions of them. However, he feels an average taxable amount, based on taxes currently being paid by PBX customers of the same size, could provide an equitable base upon which to bill Centrex customers. He suggests this as a possible solution, but feels the Bell System might have more solutions which could be considered by the Government.

PROTECTED

E1299
Exhibit 150

Owens - Corning feels that A T & T should do something about this and has asked that we make a formal request to have the matter acted upon by 195 and make a suitable agreement with the Government.

The customer has asked that we keep him informed of our progress and to advise of any decisions reached in the matter.

Mr. Troutman mentioned this problem had been discussed with The Blade by him and they plan to make a similar request.

John T. Alter
Sales Manager

Attachment

cc: Clark Troutman - OCF
Bob Fehlen

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E1300
EXHIBIT 151
Document sent by C.F. Hurd
to H.C. Luppens

Misc [illegible]
To be filed in gray
Federal excise material

Copy of this sent to H.C. Luppens
of Columbus commercial in response
to question raised by Owens Corning
Glass Co. of Toledo
as to why their centrex service
should be taxed so heavily
CFH
11-14-66

NEW YORK TELEPHONE COMPANY
LEGAL DEPARTMENT
140 WEST STREET
NEW YORK, N. Y. 10007

MARION C MALLORY
ATTORNEY

AREA CODE 212
394-2003

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
151

July 14, 1966.

Mr. D.W. Morrison
Manager - Business Services
Union Carbide Corporation
270 Park Avenue
New York, N.Y. 10017

Re: Federal Excise Tax on Communications Services

Dear Mr. Morrison:

This is in reference to your question relating to the application of Federal excise tax to unrestricted Centrex stations.

Sec. 4251 of the Internal Revenue Code of 1954, as amended by Pub. Law 89-44, 79 STAT. 148, imposes a tax on the amounts paid for local telephone service, toll telephone service and teletypewriter exchange service.

Sec. 4252 of the Code defines local telephone service as follows:

> " (a) Local Telephone Service. - For purposes of this subchapter, the term 'local telephone service' means -
>
> " (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and
>
> " (2) any facility or service provided in connection with a service described in paragraph (1).

E1301
Exhibit 151

> The term 'local telephone service' does not include any service which is a 'toll telephone service' or a 'private communication service' as defined in subsections (b) and (d).

Private communication service, the payment for which is not subject to tax, is defined in Sec.4252(d) as follows:

> " (d) Private Communication Service. - For purposes of this subchapter, the term 'private communication service' means -
>
> "(1) the communication service furnished to a subscriber which entitles the subscriber -
>
> " (A) to exclusive or priority use of any communication channel or groups of channels, or
>
> " (B) to the use of an intercommunication system for the subscriber's stations,
>
> regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),
>
> "(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and
>
> "(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,
>
> except that such term does not include any communication service unless a separate charge is made for such service.

A payment for "local telephone service" includes any payment of a charge that entitles the subscriber to the "access" and "privilege" described in paragraph (1) of

E1302
Exhibit 151

subsection (a) of Section 4252. This is so even though the payment of the specific charge which entitles the subscriber to "access" and "privilege" also entitles him to other communication features. Thus, the payment of the charge for unrestricted Centrex stations is a payment which entitles the subscriber to this "access" and "privilege" together with other communication features, and is therefore considered to be payment for local telephone service.

The payment for unrestricted Centrex service is not payment for "private communication service". This term as defined in Section 4252(d) does not include any communication service "unless a separate charge is made for such service". Since the charge for unrestricted Centrex service is not only a charge for an intercommunication service, defined in §4252(d), but also a charge for the "access" and "privilege" which is "local telephone service" defined in §4252(a), there is not a separate charge for the intercommunication system. Therefore, the payment for unrestricted Centrex service is not a payment for "private communication service" but a payment for "local telephone service".

The fact that unrestricted Centrex service does not meet the "separate charge" test of "private communication service" was recognized by the House Ways and Means Committee and the Senate Finance Committee (H.R. Rep. No.433, at 31 and S. Rep. No.324, at 36).

E1303
Exhibit 151

Mr. D.W. Morrison
New York, N.Y.

In view of the above we are required to collect the tax on payments for unrestricted Centrex service.

If I can be of any further service, do not hesitate to call on me.

Very truly yours,

M. C. Mallory

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E1304
EXHIBIT 152
May 14, 1969 memorandum from
E.D. Clouse to W.E. Mirre

Columbus, Ohio
May 14, 1969

Mr. W. E. Mirre
Division Sales Manager
Toledo, Ohio

As you requested, we have pursued the problem posed by Owens-Corning Fiberglas regarding the question of Federal Excise Tax applying to Centrex stations and not to PBX stations.

Many departments have been consulted - Commercial, State Marketing, Data Processing, Rates and Legal. No stone has remained unturned to try to arrive at an answer satisfactory to the customer.

We now feel that all those who could make a decision on this matter have been contacted for their opinion and have agreed to a Company stand on this matter. We have also been advised by our Legal Department of a similar question having been raised by a very large corporation in New York City in 1966. The answer given this corporation is basically the same as the position taken by the Ohio Bell Telephone Company.

Section 4251 of the Internal Revenue Code of 1954, as amended by Public Law 89-44, 79 Stat. 148, imposes a tax on the amounts paid for local telephone service, toll telephone service and teletypewriter exchange service.

Section 4252 of the Code defines local telephone service as follows:

"(a) Local Telephone Service. For purposes of this subchapter, the term 'local telephone service' means -

"(1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and

"(2) any facility or service provided in connection with a service described in paragraph (1).

"The term, 'local telephone service', does not include any service which is a 'toll telephone service' or a 'private communication service', as defined in subsections (b) and (d).

USA 33s-475
(ED. 4-28-71)

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U. S. DIST. COURT
S. D. OF N. Y.

152

FPI-MI—9-24-75-50M-4417

E1305
Exhibit 152

Private communication service, the payment for which is not subject to tax, is defined in Section 4252 (d) as follows:

> "(d) Private Communication Service. For purposes of this subchapter, the term, 'private communication service', means -
>
> "(1) the communication service furnished to a subscriber which entitles the subscriber -
>
> "(A) to exclusive or priority use of any communication channel or groups of channels, or
>
> "(B) to the use of an intercommunication system for the subscriber's stations, regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),
>
> "(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and
>
> "(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,
>
> except that such term does not include any communication service unless a separate charge is made for such service."

A payment for "local telephone service" includes any payment of a charge that entitles the subscriber to the "access" and "privilege" described in paragraph (1) of subsection (a) of Section 4252. This is so even though the payment of the specific charge which entitles the subscriber to "access" and "privilege" also entitles him to other communication features. Thus, the payment of the charge for unrestricted Centrex stations is a payment which entitles the subscriber to this "access" and "privilege" together with other communication features, and is therefore considered to be payment for local telephone service.

The payment for unrestricted Centrex service is not payment for "private communication service". This term, as defined in Section 4252 (d), does not include any communication service "unless a separate charge is made

E1306
Exhibit 152

for such service". Since the charge for unrestricted Centrex service is not only a charge for an intercommunication service, defined in Section 4252 (d), but also a charge for the "access" and "privilege" which is "local telephone service", defined in Section 4252 (a), there is not a separate charge for the intercommunication system. Therefore, the payment for unrestricted Centrex service is not a payment for "private communication service" but a payment for "local telephone service".

The fact that unrestricted Centrex service does not meet the "separate charge" test of "private communications service" was recognized by the House Ways and Means Committee and the Senate Finance Committee (H.R. Rep. No. 433, at. 31 and S. Rep. No. 324, at. 36).

In view of the above, we are required to collect the tax on payments for unrestricted Centrex service.

There are several other points which are important in this case in addition to the above explanation of the legal reasons behind this decision.

Ohio Bell is merely a collector of Federal Excise Taxes. Our agreement or disagreement with any tax laws or interpretations of these tax laws has no bearing on our obligation as a collector of taxes for the Federal Government. We may assist a customer in interpreting the tax laws, but both the customer and us are bound by them.

If a customer has a dispute about the validity of certain taxes, we, as a collector, cannot force him to pay such taxes. This is between the customer and the Internal Revenue Service. We are collectors of excise taxes, not enforcers of excise tax laws.

It is clear from our investigation that there are no plans in the Bell System to segregate trunks in a Centrex system into two classifications - those used for access to the local telephone system and those used for intercommunication within the Centrex system. The base for Centrex pricing has been to include sufficient trunks to and from the serving Central Office to permit an acceptable grade of service on all types of calls.

When a customer pays tax on a Centrex station, it should be noted that he is not, unlike a PBX customer, paying tax on his Central Office trunks. The tax on the unrestricted Centrex stations is in lieu of such tax on his trunks.

At the present time, Owens-Corning Fiberglas has approximately 65 Central Office trunks. The tax on these trunks, which will not be paid when they convert to Centrex is approximately $152 per month.

If you have further questions on this matter, I would be glad to discuss them with you, but I am convinced that to again request a change in our tariff structure in order to circumvent the payment of excise tax on unrestricted

E1307
Exhibit 152

Centrex stations would meet with solid resistance within our Company. Other means, of course, are available for the customer to contact directly whatever governmental authorities he chooses in an attempt to resolve the situation.

Ellis D. Clouse
Marketing Supervisor

cc: Mr. T. E. Farmer
Mr. J. R. Miller
Mr. H. E. Erb
Mr. D. J. Caris

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E1308
EXHIBIT 153
March 7, 1967 memorandum from G.H. Ruschhaupt
to J.F. Hulihan

PLEASE RETURN TO
C. BERTOLETTE

FILE

March 7, 1967

GENERAL MARKETING MANAGER - Mr. Hulihan:

Re: Application of Federal Excise Tax

Your letter dated February 7, 1967 requests information regarding the differences in Federal Excise Tax as applied to PBX and Centrex systems.

The Tax Law has been interpreted to specify that tax is applicable to the charges made for facilities connected to the message network including all elements of service associated with such facilities. For example, the charges for exchange lines connected to key telephone equipment - including the charges for the stations and the key equipment - are subject to tax but for PBX service, only the charges for trunks connected to the switching equipment are taxable. Since Centrex station rates include the charges for central office trunks, and unrestricted stations are connected to the message network for inward and outward service, it is proper to apply excise tax to the station charge and the charges made for equipment associated with the station. Naturally, tax is not applied to fully restricted Centrex stations.

Prior to the Excise Tax Reduction Act of 1965, consideration had been given to the revision of our Centrex rates to separate the trunk portion of the charge from the per station charge. However, as this would be contrary to the concept of package rates and, as such a change would be designed merely to circumvent the payment of Federal taxes, plans for a change in the rate structure were abandoned.

This subject has been fully investigated with the A.T.&T. rate people who concur in our treatment. It is therefore recommended that the present guidelines be followed until the appropriate changes are instituted in the Federal Tax Law. It is not contemplated that changes will be instituted in either the application of tax or Centrex rates.

Attached for your information is an A.T.& T. letter and related material which may be used to determine the tax status of various items of service.

FOR USE OF COUNSEL ONLY

ORIGINAL SIGNED BY
G. H. RUSCHHAUPT

Assistant Vice President

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
153

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E1309
EXHIBIT 154
Memorandum from W. Wohlhagen to
G.H. Ruschhaupt

Mr Wohlhagen –
As per our
discussion, will you
please follow again?
R 8/17-67

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FOR USE OF COUNSEL ONLY

MR. RUSCHHAUPT: 17163

Re: Application of Federal Excise Tax-Centrex Service

Federal Excise Tax, for Private Branch Exchange Service, is applied to the charges for all trunks connected to the system but unlike Centrex Service, tax is not applied to the station charges. For Centrex Service, however, since the charge for an unrestricted station includes the revenue requirements for central office trunks, Federal Excise Tax is applied uniformly to the charges for unrestricted main stations and associated bridged extension stations.

Approximately two years ago careful consideration had been given by A.T.& T. to the revision of Centrex rates to separate the revenue requirements for trunks from the station charges to permit tax treatment to be applied the same as for PBX services. This idea was abandoned for the following reasons:

1. Such treatment would be contrary to the concept of packaged rates.

2. The rate treatment would be based on a tax structure that is, to some extent, foreign and subject to future regulation change.

3. Several of the System Companies would not be in a position to make this change. Further tariff revisions would be required in all states wishing to make such a change and state commissions would have to review all such filings.

4. There are legal aspects in developing a rate structure of a type that is designed to circumvent the payment of Federal taxes.

It is not anticipated that investigation into a plan of this nature will be reinstituted.

USA 475
4-21-71
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
154

E1310
EXHIBIT 156
November 4, 1971 memorandum
from G.H. Ruschhaupt

C

PREPARED FOR USE OF COUNSEL ONLY

November 4, 1971

GENERAL MARKETING MANAGER - PHILADELPHIA AREA:
GENERAL MARKETING MANAGER - EASTERN AREA:
GENERAL MARKETING MANAGER - CENTRAL AREA:
GENERAL MARKETING MANAGER - WESTERN AREA:

In discussions with several of your people regarding the Centrex tax changes to begin to take effect today, we have become aware of some concerns that our motives for instituting these changes will be misinterpreted by some customers. Some further clarification of the reasons this restructuring is being undertaken at this time might forstall such misunderstandings.

The basic point involved is contained in the memorandum furnished to you earlier and entitled Contacts with Customers on Centrex Rate Restructuring (Attachment C to Mr. Mather's letter of October 22, 1971 and attached, also, hereto). In that memorandum we reviewed some questions customers might raise about our tariff changes, among which was the following:

- Restructuring your rates like this to reduce my tax liabilities is a good idea - but why didn't you do it a long time ago and save me more money?

In replying to this question it is desirable that several factors be emphasized along with their interrelation. The first is our historic and public position against the unfair burden of the continuing Federal Excise Tax (FET) on telephone service which falls on our customers. Next we are publicly committed to make a new service offering in the immediate future which will provide Centrex type features, such as Direct in Dial Service, to customer provided PBX systems. The new service would carry the same FET advantages of PBX service over our previous packaged Centrex rates - that is the customer would have a much lower FET on a PBX type rate structure. In fairness then to our present Centrex customers and in order to insure fair competition in the future between Telephone Company and other suppliers we have proposed the rate change now.

We believe this change and its timing is consistent with the letter and spirit of the present tax law. This Telephone Company has taken the lead in making this rate structure change. Others will be following shortly but our customers will be enjoying the reduced tax liabilities earlier than any others in the country.

ORIGINAL SIGNED BY
G. H. RUSCHHAUPT

Assistant Vice President

Attachment

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EXHIBIT
U.S. DIST. COURT
S. D. OF N. Y.
56

PREPARED FOR USE OF COUNSEL ONLY Attachment C

E1311
Exhibit 156

MEMORANDUM

CONTACTS WITH CUSTOMERS ON CENTREX RATE RESTRUCTURING

Generally, customers should be pleased to see the tax reduction achieved in the establishment of two-rate Centrex schedules. Questions may come up in discussing these changes however, and the following background information should be helpful in framing answers to several which have been anticipated:

Will changes like this be made by other Bell Companies to reduce my Centrex tax liability on systems outside of Pennsylvania?

'195 has reviewed our plans and concurs in these changes entirely. In a letter dated September 27, 1971, Mr. R. T. Dugan recommends that all Associated Companies develop a two-rate schedule such as that we are implementing. Additionally, we have had inquiries from several of the Associated Companies indicating they are pursuing the matter.

Does the Internal Revenue Service approve of this new tax application?

In principle IRS has accepted the "separate rate - separate tax" concept involved in several other instances. Care should be exercised, however, to avoid conveying the impression that these specific filings have been "cleared" with IRS. General principles pertaining to the application of FET to Centrex service have been developed over the years with the participation of IRS. After careful consideration of this aspect by our people most familiar with such matters, we have concluded that the FET applications to the new structure are consistent with earlier IRS rulings.

We have elected to proceed in the face of some uncertainty as it would seem to be in the best interests of our customers to file our changes without awaiting a potentially lengthy clarification process. In this way the benefits of the new FET application will accrue to our customers during this clarification period. Moreover, we are confident that these changes are entirely within the spirit and letter of the most recent Congressional action defining FET applications and would withstand such a challenge.

E1312
Exhibit 156

[illegible] FOR USE OF COUNSEL ONLY

Restructuring your rates like this to reduce my tax liability is a good idea - but why didn't you do it a long time ago and save me even more money?

Factors are present in today's competitive environment that did not exist in the past and these factors, at least in part, justify such changes.

The Bell System is committed to offering Direct Inward Dialing (DID) and Identification of Outward Dialing (IOD) to outside supplier PBX systems within the not-too-distant future. As such an offering subjects Centrex to direct competition with outside supplier systems, it is necessary that the Bell offering have FET liabilities basically equal to those of the competitive systems. The current rate structure for Centrex service imposes a greater tax burden on Bell System Centrex services than that which will be applicable to Centrex-type systems provided by outside suppliers. The new rate structure brings the two services into reasonable balance.

Once before it was necessary to make adjustments in the application of FET to assure fair competition between Bell and outside supplier services. Bell PBX systems have been in direct competition with suppliers such as Terryphone, Stromberg-Carlson and others who offer various types of intercommunications services. The inherent tax advantage these competitors enjoyed was recognized and corrected, by Congressional Action in 1965, through the adoption of the "Private Communications Services" rule. In the case of PBX, this rule means that only the exchange trunks are subject to FET - bringing our service's tax liability in line with that of the outside supplier.

The Private Communications Rule also constitutes the legal basis for the Centrex changes now being proposed. The separate, non-taxable Centrex rate element being established (the Centrex Intercommunication Charge) can be likened to the PBX station charges not taxed under that rule.

In summary, therefore, it is fair to state that the timing of the FET change now being undertaken was dictated by evolving technology and regulatory changes which have brought about direct competition between Bell and outside supplier Centrex services.

Will this change have any bearing on my State taxes?

No - the Private Communications Services rule applies only to the Federal tax.

How will the new rate structure "show up" on my bill or monthly record of service and equipment?

The only discernible change will be on the tax line of the bill - it will go down. As the new two-rates per station are in all cases equal to the level currently applicable as a single rate, no change in Tab sheet format was necessary to implement the new filings.

If a customer wishes to compute his tax manually, he may do so using the Centrex station summaries currently contained in his Tab sheet. The amount of tax savings would be equal to 10% of the applicable Intercommunication Charges for his unrestricted station billings.

E1313
EXHIBIT 159
December 12, 1967 letter from J.M. Shotz

Address any reply to:

US Treasury Department

District Director
Internal Revenue Service

Rcd 12/19/67

Date: December 12, 1967

In reply refer to: Au:1-15:IDF

New Jersey Bell Telephone Company
540 Broad Street
Newark, New Jersey 07101

Attention: Walter Venza
Business Systems Supervisor

Dear Sir:

In accordance with the provisions of existing Internal Revenue procedure notice is hereby given that technical advice is being requested from the National Office of the Internal Revenue Service pursuant to the statement of facts and points at issue as enumerated in the attached copy of request.

If you do not agree with the statement of facts and points at issue, please indicate in writing any areas of disagreement. Your written statement must be received in this office within ten days of above date, and addressed for the attention of Chief, Audit Division, Au:1-15: IDF, P. O. Box 270, Newark, New Jersey, 07101.

Please advise whether you desire a conference in the National Office in the event an adverse decision is indicated. If so, who will represent you at the National Office conference and whether a Power of Attorney, Form 2848, is on file in this office.

Very truly yours,

Joseph M. Shotz

Joseph M. Shotz
District Director

Enclosure-Request for Technical Advice

[illegible] Conc. ? E Charvat's handling reply before 1/15/68

USA 88a-475
(ED. 4-28-71)

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

159

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

* COPY *

UNITED STATES GOVERNMENT

Memorandum

E1314
Exhibit 159

TO : Assistant Commissioner (Technical)
National Office

DATE: December 12, 1967

FROM : District Director
Newark District Office   Au:1-15:IDF

SUBJECT: Request for Technical Advice

This office has under current review the excise tax returns of the New Jersey Bell Telephone Company for the four quarters in 1966.

Technical advice is requested to clarify and fix the scope of that portion of section 4252(d) of the Internal Revenue Code of 1954 defining the term "private communication service" which requires a separate charge for such services.

Facts:

P. L. 89-44, the Excise Tax Reduction Act of 1965, established completely new definitions of the taxable communications services and removed private communication service from the tax base. Private communication service excluded from the excise tax on communication services imposed by section 4251(a) of the Code include private intercommunication systems and private lines along with associated services necessary or unique to the private communication service, if a separate charge is made for such services.

The taxpayer, a member telephone company of the Bell System, provides a full range of private communication services for industrial and commercial subscribers. Monthly billing to subscribers is shown on invoices which include a billing record to be retained by subscribers and an accounting stub which is detached along perforations by subscribers and returned to the taxpayer with remittances. The invoices contain billing charges or credits which are explained as follows:

Service and Equipment	xxx
Message Units	xxx
Calls outside local area	xxx
Other charges or credits	xxx
United States Tax	xxx
Directory advertising	xxx
Balance from last bill	xxx
Total Amount Due	xxx

[illegible]

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

E1315
Exhibit 159

Charges for private communication services are not shown separately on subscriber invoices. These charges are included in totals shown for "service and equipment" without further billing detail. The subscriber would be at a loss to tell the amount of charges for private communication services from the invoice. The following example taken from a statement of monthly charges to a subscribing race track for a period after December 31, 1965 illustrates the billing detail made available to a typical subscriber:

Service and equipment	$ 1,106.30
Message units	
Calls outside local area	377.75
Other charges or credits	13.05
United States Tax	60.04
Directory advertising	20.75
Balance from last bill	
Total Amount Due	$ 1,577.89

In this example it was found that taxable local telephone service totalled $222.60 for flat rate trunk business charges. All charges for toll telephone service in the amount of $377.75 were subject to tax. Total charges subject to tax in the amount of $600.35 resulted in tax chargeable in the amount of $60.04 as shown in the example cited above. Charges for private communication services from 130 PBX stations totalled $883.70 and were exempted from tax.

Service billing records retained by the taxpayer itemized charges for each station-trunk line number by Uniform Service Order Codes (USOC) with precise detail explaining the specific equipment items furnished and the monthly rate for each. This statement included 25 sheets ran from the taxpayer's EDP system. If special billing detail was desired by a subscriber it would be furnished by the taxpayer for an additional charge. Requests for special billing detail are usually limited to toll ticket reproduction, however, which embraces an area far removed from charges for private communication services.

NOT SO -
AVAILABLE
WHEN REQUEST
AT NO CHARGE

Law:

The phrase "unless a separate charge is made for such service" contained in section 4252(d) of the Code is a restrictive condition which was included in the exemption provisions of the new law for reasons explained in the Committee Reports which accompanied H.R. 8371, the excise tax reduction bill of 1965, C.B. 1965-2, 642-675. Senate Report No. 324, C.B. 1965-2, 676-723, contained identical comments on the subject of

E1316
Exhibit 159

private communications services. The House Report on page 666 of C.B. 1965-2 stated:

> "...your committee's bill provides an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems-where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber-generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service."

An Excise Tax Manual issued by the Comptrollers Department, General Tax Section of American Telephone and Telegraph Company for Bell System use as a reference source provides classification information for all services to be programmed taxable or non-taxable in the accounting records. That portion of the manual dealing with Centrex systems reads as follows:

> "Restricted Centrex Stations
>
> 2.2401 Charges for restricted centrex stations are classified as nontaxable private communication service. However, when the charge for centrex service is subject to the minimum unrestricted station requirement of the tariff, all stations charged for at the unrestricted rate shall be taxable even though stations are arranged for restricted use at the request of the customer."

Unrestricted main centrex stations appear to be the only communication services affected by the "separate charge" stipulation of section 4252(d) of the Code.

Joseph M. Shotz
Joseph M. Shotz

[illegible]

E1317
EXHIBIT 160
January 25, 1968 letter from
E.R. Charvat to C.L. Barrett

January 25, 1968

Mr. Chauncey L. Barrett, Attorney
New Jersey Bell Telephone Company
540 Broad Street
Newark, New Jersey 07101

Dear Mr. Barrett:

Enclosed is a copy of a letter dated January 24, 1968 relating to District Director Shotz's request for technical advice from the National Office, together with a statement of this Company.

Copies of the remainder of the attachments were enclosed with my letter of January 15, 1968.

Yours very truly,

/s/ E. R. Charvat

E. R. Charvat
Tax Attorney

Enclosure
ERC:mpl

CC: Mr. C. E. Erickson ✓
Comptrollers Department

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USA 88s-475
(ED. 4-28-71)

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

160

FPI-MI—9-24-79-50M-4417

E1318
Exhibit 160

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

195 BROADWAY, NEW YORK 7, N.Y.

AREA CODE 212 393-2165

VICTOR E. FERRALL
GENERAL TAX ATTORNEY

January 24, 1968

District Director Joseph M. Shotz
Internal Revenue Service
P. O. Box 270
Newark, New Jersey 07101

Reference: Au:1-15:IDF

Dear Sir:

This relates to your letter dated December 12, 1967 to New Jersey Bell Telephone Company in which notice is given that technical advice is being requested from the National Office of the Internal Revenue Service. As indicated in our previous letter to you dated December 21, 1967, in as much as the subject of the proposed request for technical advice is of interest to all Bell System telephone companies, a copy of your December 12 letter was forwarded to us.

Your proposed request for technical advice refers to New Jersey Bell Telephone Company as the taxpayer. Section 4251 of the Code provides that the communications excise taxes "shall be paid by the person paying for the services", and thus New Jersey Bell Telephone Company is not the taxpayer but, pursuant to section 4291 of the Code, is merely required

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E1319
Exhibit 160

to collect the amount of the tax from the person making payment for the service. However, as collecting agents for this tax New Jersey Bell Telephone Company, and all Bell System telephone companies, have an interest in the correct interpretation of the communications excise tax law and appreciate the opportunity to comment upon your proposed request for technical advice.

Your proposed request for technical advice requests an interpretation of the words "separate charge" in the following phrase found in section 4252(d) of the Code:

> "except that such term does not include any communication service unless a separate charge is made for such service."

We feel that it is clear, as explained in the attached statement, that the "separate charge" referred to is a separate tariff charge and that there is no requirement that the tariff charge for private communication service be shown separately on the bill submitted to a subscriber. However, if after reading the attached statement you are still of the view that this matter requires interpretation by the National Office, we request that a copy of our statement be submitted with your request for technical advice.

We shall be happy to meet with you or representatives of the National Office to discuss this matter at any mutually convenient time. Should it appear that advice which

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E1320
Exhibit 160

is adverse to the views we have set forth in the attached statement will be taken by the National Office, a conference is requested.

Please address any communications relating to this matter specifically to the attention of the undersigned.

Yours very truly,

General Tax Attorney

Attachment

PROTECTED

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E1321
Exhibit 160

STATEMENT OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Section 4252(d) of the Code defines the term "private communication service", and contains the provision ". . . that such term does not include any communication service unless a separate charge is made for such service." In an audit of the excise tax returns of New Jersey Bell Telephone Company* a question has been raised as to the meaning of the words "separate charge" within that provision. We believe that an examination of the history of the Excise Tax Reduction Act of 1965 (Pub. L. No. 89-44), which added this provision to the Internal Revenue Code, will clearly demonstrate that the "separate charge" referred to in section 4252(d) is a separate tariff charge, and that there is no requirement that the tariff charge for private communication service be shown separately on the bill submitted by a telephone company to its subscriber.

The facts related in District Director Shotz's request for technical advice are essentially correct. The first line of the monthly bill submitted by a telephone company

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* In District Director Shotz's memorandum dated December 12, 1967 requesting technical advice, New Jersey Bell Telephone Company is referred to as the "taxpayer." In as much as under Code sections 4251 and 4291 and Reg. § 49.4251-2(c) the taxes imposed by section 4251 are payable by the person paying for the services and the person rendering the service is merely required to collect, return and pay over the tax, New Jersey Bell Telephone Company is not the taxpayer. The use of the word "taxpayer" in the memorandum was no doubt an unintended usage of normal audit language.

Exhibit 160

to its subscriber is usually a total of all the tariff charges for service and equipment that have recurring monthly charges, as opposed to charges that vary with usage such as message units and tolls (which appear on other lines of the bill). The title used by the telephone companies for the first line of the bill varies, e.g., Service and Equipment, Local Service, Basic Monthly Service, Local Service and Equipment. The bill submitted by a telephone company to its subscriber is based on tariff charges; the amount billed cannot be more, or less, than the tariff charges. Although only the total of the tariff charges appears on the bill, a subscriber can always obtain from the telephone company the detail of the total charges, and this detail is furnished without additional charge.*

In the illustration chosen by the District Director the amount on the first line of the bill--the total of the recurring monthly tariff charges for service and equipment--was $1,106.30. The Service Billing Record which was printed out to support this figure comprised 25 sheets. A copy of one of these sheets, sheet number 2, is enclosed. A "0" in the Tax column indicates that no Federal communications excise tax should be billed, and the absence of a mark in that column indicates tax should be billed at 10% (the 8% referred to at the

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* Although in some instances some forms of special billing requested by subscribers have been furnished for an additional charge, copies of the Service Billing Records, referred to by District Director Shotz, have been furnished to subscribers upon request without charge.

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bottom of the sheet refers to the 8% tax formerly imposed on payments for wire and equipment service). This sheet shows that 14 PBX trunks, at a monthly rate of $15.90 each, were subject to tax; the total tax of $22.26 for these charges (14 x $15.90 x 10% = $22.26), when added to the $37.78 tax on toll charges, equals the $60.04 tax shown on the bill.

Sheet number 2 also shows items on which no tax was billed because the service was private communication service as defined in section 4252(d). For example, the $1.25 monthly rate (or charge) on lines 37 and 44 was not subject to tax because this was the consideration for a PBX extension line. There is a separate tariff charge of $1.25 for this line as shown by page 4 of Part I, Section 12, of the Private Branch Exchange Service tariff, a copy of which is attached.

The view that the "separate charge" referred to in section 4252(d) is a separate charge specified in a tariff as the consideration a subscriber is required to pay for a specified service is supported by a consideration of the work done preliminary to the Excise Tax Reduction Act of 1965. In October 1964, at the invitation of Dr. Laurence N. Woodworth, Chief of Staff, Joint Committee on Internal Revenue Taxation, proposed amendments of sections 4251 and 4252 were drafted. A copy of these proposed amendments, which were identified as "Draft A", is attached. The proposed section 4252, found in

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Exhibit 160

"Draft A", contains references to charges, and it is clear that the charges referred to are tariff charges. Thus, the proposed definition of the term "local telephone service" refers to the ". . . charge for local exchange service provided in a local exchange tariff . . .", and the proposed definition of the term "teletypewriter exchange service" refers to the ". . . charge or charges provided in a teletypewriter exchange tariff . . . ." In fact the entire concept of the definitions found in proposed section 4252 was a description of the communication service to which a subscriber was entitled in consideration of the payment of a charge, and these two elements of the contract between the subscriber and the telephone company--the service to which the subscriber is entitled and the charge, or rate, the subscriber must pay for that service--are defined in the tariff.

A letter dated December 17, 1964 from Victor E. Ferrall, General Tax Attorney of American Telephone and Telegraph Company, to Dr. Woodworth, a copy of which is attached, sheds further light on the question. This letter explains that under current tariffs payments for attendant positions and restricted Centrex stations would be payments for private communication service not subject to tax because there was a separate tariff charge for such private service, but that payments for unrestricted Centrex stations would be subject to tax because under current tariffs there was not a

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Exhibit 160

separate charge for the private communication feature of unrestricted Centrex service. The answer to the second question raised by Dr. Woodworth--what would be the factors involved in a separation of tariff charges so that part of the payment for unrestricted Centrex stations would not be subject to tax--also makes clear the understanding that the "separate charge" referred to was a separate tariff charge (p. 6):

> ". . . only a single charge for each unrestricted Centrex station is provided in the local exchange tariffs currently in effect. The separation required to exempt part of this charge from tax could be made by some sort of allocation on the telephone companies' books only if a specific addition to that effect were made to Draft A, or if such a position were to be adopted in Treasury regulations or rulings. Therefore, we assume that tariff changes would be necessary."

Although the amendment of section 4252 that was adopted by Congress in the Excise Tax Reduction Act of 1965 did differ in some small degree from the amendment proposed in "Draft A", the concept did not change. That is, the definitions were still written in terms of the communication service to which a subscriber was entitled upon payment of a charge. The basic document which determines the service to which a subscriber is entitled and the charge that he is required to pay for such service is the tariff.

The Committee Reports on the Excise Tax Reduction Act of 1965 also show that the words "separate charge" refer to

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E1326
Exhibit 160

separate _tariff_ charges. The following statement appears in S. Rep. No. 324, 89th Cong., 1st Sess. 36 (1965):

> "For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems--where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber--generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service."

A similar statement appears in H.R. Rep. No. 433, 89th Cong., 1st Sess. 31 (1965).

The reference in the Committee Reports to the fact that at present there is not a charge for Centrex service which is separate and distinct from the charge for local telephone service relates directly to the explanation in the December 17, 1964 letter to Dr. Woodworth as to why payment for unrestricted Centrex stations (with respect to which the tariff did not provide separate charges for the private and exchange service elements) would be subject to tax, and clearly shows that the Senate and House Committees were making a distinction based on tariff charges. Further, the acknowledgement in the Committee Reports that there are separate charges for private lines and PBX systems again emphasizes the fact that the separate charge referred to could only be a separate

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tariff charge; as illustrated earlier, the bill submitted by a telephone company to its subscriber does not itemize the amount to be paid as consideration for any private service, and thus the only separate charge for private lines and PBX--and the Committee Reports acknowledge that such separate charges do exist--is the separate tariff charge.

In as much as the current Treasury Department regulations do not reflect the changes made by the Excise Tax Reduction Act of 1965, they contain no definition of the phrase in question. Current regulations do contain the word "charge" in many sections and, although the word is not defined, it seems clear that it is used to connote the consideration for the service referred to. The consideration that telephone companies can ask for the services they offer is subject to regulation, and they can ask only for the exact amount--no more and no less--specified in the tariffs.

Previous regulations did contain a definition of the word "charge." Regulations 57, Art. 6, under the Revenue Act of 1918, states that "The term 'the charge' means the amount charged by the carrier for the transmission of the particular message." Regulations 42 (1942 Edition), section 130.33(c) states that "The term 'charge' as used herein means the amount specified for the transmission service, whether satisfied in money, service, or other valuable consideration." These regulations, although not under the current Code, add further support to the view that "charge" refers to the

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Exhibit 160

consideration for a service, and the conclusive authority prescribing the consideration and the service is the tariff.

In summary, we feel that the only conclusion that can be drawn from the foregoing is that the "separate charge" referred to in section 4252(d) is a separate tariff charge. Had Congress in using the words "separate charge" intended to refer to separate items appearing on a bill rendered by a telephone company to its subscriber, in the case of a service which contained both private and exchange service features (such as unrestricted Centrex stations) but for which there were but one tariff charge, a telephone company might bill for that service in two separate amounts (the total of which would equal the single tariff charge for the service) and not bill the communications excise tax with respect to that amount of the bill which in its sole discretion it chose to allocate to the private service feature. We do not think that Congress intended to permit the imposition of the communications excise tax to turn on the billing practices of a telephone company--a matter which is in the sole discretion of the company--but instead, by the reference to "separate charge", tied the determination of what is private communication service to a tariff, a public document which is subject to governmental regulation.

January 24, 1968

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E1329
EXHIBIT 161
August 30, 1968 letter from IRS to New Jersey Bell
and IRS technical advice memorandum dated
August 8, 1968

Address any reply to: P. O. Box Newark, N.J. 07101
U.S. Treasury Department

District Director
Internal Revenue Service

Rec'd
9-5-68

USA 33a-475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
161
FPI-MI—9-24-75-50M-4417

Date: August 30, 1968
In reply refer to: Au:F:1-15:CO

New Jersey Bell Telephone Company
540 Broad St.
Newark, N.J. 07101

Attention: Mr. Walter Venza
Business Systems Staff Sup'r.

Dear Mr. Venza:

A copy of a technical advice memorandum dated August 8, 1968 is enclosed for your records. This memorandum, of course, was issued in reply to the request for technical advice initiated by the undersigned.

It has been some time since we discussed the examination of excise tax returns (Forms 720) filed for periods in 1966 by New Jersey Bell Telephone Company. It may be recalled, however, that I had expressed interest in visiting one of your three accounting centers for the purpose of reviewing revenue reports and discussing overall accounting procedures with certain appropriate representatives of your accounting centers. I am still interested in fulfilling this intention and I would appreciate your assistance in this regard. If possible, the accounting center at Trenton, N.J. for your Central and Southern areas would be preferred for this purpose.

Please advise me as to when such a visit can be arranged. It is not anticipated that the visit to a field accounting center would require more than two days. My telephone number is 609-963-2541, extension 365, if it is convenient for you to call.

Yours very truly,

Charles P. O'Neil

Charles P. O'Neil
Internal Revenue Agent

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OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA FPMR (41 CFR) 101-11.6

E1330
Exhibit 161

UNITED STATES GOVERNMENT

Memorandum

TO : District Director
Newark, New Jersey

DATE: AUG 8 1968

FROM : National Office
Internal Revenue Service

SUBJECT: New Jersey Bell Telephone Company
540 Broad Street
Newark, New Jersey 07101

This is in reply to your request for technical advice to clarify and fix the scope of that portion of section 4252(d) of the Internal Revenue Code defining the term "private communication service" which requires a separate charge for such service.

The information submitted indicates that the New Jersey Bell Telephone Company provides a full range of private communication services for industrial and commercial subscribers. Monthly billings to subscribers do not show charges for private communication services separately. Such charges are included in totals shown for "service and equipment" without further billing detail. Under the circumstances, subscribers would be unable to determine from monthly bills what portion represents private communication service. However, the telephone company retains service billing records on which the charges have been itemized with precise detail explaining the specific equipment items furnished, and the monthly rate for each. If special billing detail is desired by a subscriber, it is usually furnished by the telephone company without charge. It is shown, however, that requests for special billing detail are usually limited to toll ticket reproductions.

In an Excise Tax Manual issued by the Comptroller's Department, General Tax Section of American Telephone and Telegraph Co. for Bell System, charges for restricted Centrex stations are classified as nontaxable private communication service. However, it is further stated therein that when the charge for Centrex service is subject to the minimum unrestricted station requirement of the tariff, all stations charged for at the unrestricted rate shall be taxable even though stations are arranged for restricted use at the request of the customer. You feel that if the term "separate charge" is interpreted to mean a separately stated charge to subscribers on billing invoices, in addition to an internal measurement capacity, this interpretation should be more clearly defined.

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5010-108
Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

E1331
Exhibit 161

Mr. Victor E. Ferral, General Tax Attorney for the American Telephone and Telegraph Company, forwarded a statement to your office in which he contends that the "separate charge" referred to in section 4252(d) of the Code is a separate tariff charge, and that there is no requirement that the tariff charge for private communication service be shown separately on bills submitted by a telephone company to its subscribers. Mr. Ferral states that the definition of the term "local telephone service" refers to the ". . . charge for local exchange service provided in a local exchange tariff . . . ." He contends further that the concept of the proposed amendment to section 4252 was adopted by Congress in the Excise Tax Reduction Act of 1965 (Public Law 89-44). That is, the definitions were still written in terms of the communication service to which a subscriber was entitled upon payment of a charge. It is contended by Mr. Ferral that the basic document which determines the service to which a subscriber is entitled and the charge that he is required to pay for such service is the tariff.

On the subject of private communication service, the Senate Committee Report No. 324 (C.B. 1965-2, page 704), leaves no doubt that private lines and PBX (Private Branch Exchange) systems generally qualify for exemption from the tax on local telephone service. However, as stated in that report Centrex systems, where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber, generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. It is indicated in the report that until such a separation of charges is made, the exemption will not apply in the case of Centrex service. From this explanation, it is apparent the Committee was making a distinction based on tariff charges. The term "tariff" when used in connection with a public utility, such as a telephone company, pertains to a schedule of charges.

Accordingly, it is held that so long as telephone companies maintain in their records, in accordance with their tariff documents, a separation of charges for taxable local telephone service and nontaxable private communication service, the need to show such separation on billings to subscribers is unnecessary.

—— END——

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E1332
EXHIBIT 162
September 16, 1968 "Tax Talk"

TAX NEWS
COMMENT

TAX TALK

Issued by the General Tax Section,
Comptroller's Dept., A.T.& T. Co.
For internal distribution only

Vol. XI, No. 32

September 16, 1968

REGULATIONS AND RULINGS

IRS Defines "Separate Charge"

A recent IRS audit of excise tax returns of the New Jersey company resulted in a request by the agent to his National Office for technical advice to clarify the term "private communication service" insofar as it requires a separate charge for such service. The agent questioned whether the New Jersey company had satisfied the provisions of section 4252(d) of the Code inasmuch as monthly bills rendered to customers did not show charges for private communication services separately but included them in "line 1" totals for "Service and Equipment".

The National Office, in a technical advice "Memorandum" dated August 8, upholds the American Company interpretation of "separate charge" as found in section 4252(d) of the Code to mean a separate tariff charge. The final statement represents a clear and simple confirmation of Bell System billing policy and is worthy of quote:

> "Accordingly, it is held that so long as telephone companies maintain in their records, in accordance with their tariff documents, a separation of charges for taxable local telephone service and nontaxable private communication service, the need to show such separation on billings to subscribers is unnecessary."

DEFENDANT
EXHIBIT
U.S. DIST. COURT
S.D. OF N.Y.

LITIGATION

Court Holds Reimbursed Moving Expenses Taxable

Two years ago in Starr v. Commissioner the U.S. Tax Court held that moving expenses reimbursed to an employee transferred solely for the benefit of a corporation did not constitute taxable income (TT, 10/10/66). The decision represented the last slender hope for reconsideration of a number of court opinions supporting the IRS practice of treating other than bare bones reimbursed moving expenses as income subject to tax.

The Commissioner of Internal Revenue appealed and the Tenth Circuit Court appears to have severed that last litigative thread by reversing the Tax Court. The 10th Circuit cites U.S. v. Woodall, 255 F 2nd 370 (10th Cir. 1958) as answering all pertinent questions at issue. The distinction drawn by the Tax Court where the expenses incurred are the result of a transfer purely in the corporate interest is overruled as "a distinction without a difference".

Comment: It would appear now that any relief in this area must come through legislative channels.

E1333
Exhibit 162

TAX TALK - September 16, 1968

OTHER DEVELOPMENTS

Of ESS Centrex and Excise Taxes

Electronic switching systems (ESS) are currently being introduced into the PBX/Centrex area with the result that the operating companies are able to offer customers a number of additional optional services. Among these custom calling features are speed calling, call forwarding, call pick-up and call hold, automatic call transfer, consultation hold, and three-way calling.

The basic Federal excise tax treatment to be accorded ESS Centrex service should be governed by the practices covering nonelectronic Centrex systems as described in paragraphs 2.24 and 2.2401 of the Federal Excise Tax on Communication Services manual.

If the optional service features are offered as separate chargeable items, as recommended in Mr. Ellinghaus' letter to operating company rate people dated August 18, 1966, they should be accorded nontaxable status.

Comment: See lead article for discussion of "separate charge".

State and Local Tax Miscellany

Oklahoma voters have gone to the polls and adopted a constitutional amendment authorizing state income taxation by reference to Federal tax laws and a second prohibiting taxes on intangible personal property . . . A U.S. District Court has ruled that a Federal District Court may not assume jurisdiction over a lawsuit (by the Santa Fe Railroad) to invalidate a 1967 Arizona law prescribing a higher assessment ratio for railroads (60%) than for other utilities (40%) and businesses (25%) . . . Early in October, the sales tax rate in California is scheduled to drop from 4% to 3-1/2% while in Texas the rate is scheduled to increase from 2% to 3% . . . Effective 1/1/69, employers in Mississippi must start withholding state income taxes from their employees' wages. This leaves California and North Dakota as the only states having income taxes but no withholding . . . A petition filed in Nebraska to place the state's income tax on the November ballot (to be approved or disapproved by the voters) was denied certification by the Secretary of State.

E1334
EXHIBIT 163
April 14, 1969 "Tax Talk"

TAX NEWS
COMMENT

TAX TALK

Vol. XII, No. 15

Issued by the General Tax Section,
Comptroller's Dept., A.T.& T. Co.
For Internal distribution only

April 14, 1969

CURRENT EVENTS

Tax Reform Hearings Reconvene Today

The House Ways and Means Committee, which has enjoyed an Easter recess since April 3, reopens the tax reform hearings today. This will mark the 27th day of the hearings and is the final scheduled day for receiving testimony from outside witnesses.

The next phase of the hearings will be the presentation of the Nixon Administration proposals for tax reform which are expected to be ready early next week. A high Administration tax official has indicated that a three stage approach to the mammoth reform job will be proposed: Stage 1 (1969) - matters requiring urgent attention, which are not technically difficult to accomplish, or which entail substantially no opposition; Stage 2 (1969-70) - technically difficult matters and serious policy decisions with heavy revenue impact; and Stage 3 (1970-71) - long range problems requiring exhaustive study before valid recommendations can be made.

Rep. John W. Byrnes (R-Wis), ranking Republican committee member, has characterized the final remaining phase of the tax reform hearings as "a long period of executive sessions during which decisions will be reached on changes in the Internal Revenue Code to correct abuses which have been uncovered".

REGULATIONS AND RULINGS

Two Communication Services Excise Tax Rulings Published

The IRS has released two rulings recently concerned with the application of Federal excise tax to communication services. Briefly, the rulings are as follows:

> Rev. Rul. 69-151 (IRB 1969-13,16) - "State and local taxes imposed on telephone companies, that are passed on to customers and separately stated in their bills, are includible in determining the amount upon which the Federal communications tax is imposed."
>
> The IRS reasons that state and local taxes imposed on companies engaged in the business of providing a service are just another element of the cost of providing the service. When that element of cost is passed along to the customers (even if separately stated on the bill) it is part of the base for Federal excise tax.

DEFENDANT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
3

Exhibit 163

TAX TALK - April 14, 1969

The recommended treatment of such state and local taxes by Bell System companies is set forth in paragraph 3.05 of the manual "Federal Excise Tax on Communication Services", which states that the state or local tax should be included in the base for computation of the Federal excise tax where the "charge for service . . . is accounted for as revenue. Those taxes accounted for as collected taxes are not includible . . .". This procedure is supported by the new ruling.

> Comment: This ruling would appear to be connected with a court case in process in one of the operating company territories where a customer has taken issue with the procedure of applying Federal excise tax to a base including state and local taxes passed on to the customer.

Rev. Rul. 69-152 (IRB 1969-13,17) - "A telephone company that maintains in its records a separation of charges for taxable local telephone service and nontaxable private communication service meets the requirement that a separate charge be made for 'private communication service' even though not billed separately to customers."

In effect, the IRS is recognizing that a separate charge in the tariff structure satisfies the "separate charge" requirement. Such separation need not necessarily be reflected in the customer's bill.

> Comment: This ruling represents a published version of technical advice arising from a question raised during an examination of an operating company by the IRS. The company had requested that the agent request such advice to resolve a disputed issue.

OTHER DEVELOPMENTS

Treasury Tax Policy Post Filled

Secretary of the Treasury David M. Kennedy has announced the filling of another tax post with the designation of John S. Nolan, a Washington tax attorney, as Deputy Assistant Secretary of the Treasury for Tax Policy. He replaces William F. Hellmuth, Jr. who has resigned.

Mr. Nolan, 43, is a law partner in the Washington firm of Miller and Chevalier and has specialized in Federal tax practice. He is a graduate of the University of North Carolina and received his law degree magna cum laude from Harvard Law School. He has served as a member of the Advisory Group to the Commissioner of Internal Revenue; was formerly the vice chairman, Section of Taxation of the American Bar Association; and served as an Adjunct Professor of Law at Georgetown Law School.

> Comment: It is reported that an economist will be appointed as a second Deputy to Assistant Treasury Secretary Cohen. A two-deputy structure will represent a departure from the former one-deputy (an economist) organization under former Assistant Treasury Secretary Stanley S. Surrey.

E1336
Exhibit 163

TAX TALK - April 14, 1969

CWA Vows to Fight Extension of Tax Surcharge

Communications Workers' President Joseph A. Beirne has written both President Nixon and House Ways and Means Chairman Wilbur Mills (D-Ark) announcing the intention of his union to wage an all-out fight against extension of the 10 percent income tax surcharge. The union leader has been supported in this position by a statement issued by the CWA executive board.

Mr. Beirne warned of a potential "tax rebellion" by workers and "middle management" people if the surcharge is continued past the June 30 expiration date. The "rebellion" would be in the form of votes against Congressmen supporting extension of the tax, more incidents of people speaking out, and increased popular pressure on public officials for tax reform.

A concurrently submitted program for tax reform contained no surprises. It asked for plugging of tax "loopholes"; increasing the standard deduction and personal exemption; tightening of capital gains, charitable contribution, and depletion allowance regulations; a minimum income tax on higher incomes; and repeal of the investment credit.

State and Local Tax Miscellany

The Vermont House of Representatives has passed a tax package which includes a new 3% sales and use tax, an increase in the corporate income tax rate from 5% to 6% and an increase in the gross receipts tax rate on telephone companies from 4-1/4 to 5-1/4%. . . . For taxable years ending after 2/28/69 the Montana corporate income tax rate will be increased from 5-1/2% to 6-1/4% . . . In New Mexico, the sales and use tax rate will go from 3% to 4%, effective 7/1/69, and the corporate income tax rate will jump from 3% to 5% effective with taxable years ending on or after 1/1/69 . . . Illinois Governor Ogilvie has requested a tax package which would include a new 4% flat personal and corporate income tax.

E1337
EXHIBIT 169
January 7, 1971 letter from
C.R. Mott, Jr. to G.W. Bates

TENNESSEE

Federal Excise Tax - CENTREX
Service (File 5A2.14)

South Central Bell

Green Hills Office Building
Nashville, Tennessee 37215
Telephone 615 298-7462

C. R. MOTT, JR.
General Marketing Manager

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
169

January 7, 1971

PRIVATE

Mr. G. W. Bates
Assistant Vice President
Birmingham, Alabama

Dear Mr. Bates:

In converting PBX systems to CENTREX service, we have very possibly given little thought to the effect this might have in connection with the application of Federal excise tax. However, due to the manner in which we bill for CENTREX service, it can result in a substantial tax increase.

We recently had a case where this was very strongly brought to our attention. In this particular instance, a change from PBX service to CENTREX service increased the excise tax $437.00. The customer was very much concerned about this increase in billing since it had not been anticipated.

Under the present excise tax rulings a PBX system qualifies as a private communications system and is non-taxable since a separate charge is made for the switchboard, stations and associated equipment. The trunks providing local exchange service are taxable. In connection with CENTREX service, the charge for the service is keyed to the main stations which, in effect, is in part a payment for the trunks and in part a payment for the stations. However, the entire charge for the stations is taxable.

It is our understanding the application of tax in this manner is because of our method of billing for CENTREX and not because of any difference in the type of service the customer is receiving. Actually, CENTREX service is nothing more than improved PBX service. In fact, the only thing that changed in connection with the above mentioned case was that incoming calls previously handled by an operator are now mechanically handled.

This matter is of great concern to us for two reasons; first, it appears discriminatory to bill tax in such a manner and, secondly, it is one more barrier to overcome in combating competition. In some areas of our state we have as much as 19½ percent tax on the telephone service. Any relief we can obtain in this respect by legitimately reducing the tax through more favorable rulings in the application of taxes would be of help in selling our services.

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E1338
Exhibit 169

It is our recommendation that serious consideration be given to obtaining a change that would result in less tax for CENTREX services. We should appreciate your assistance in this matter.

Yours very truly,

C.R. Mott

GGH:ef

cc: Assistant Vice President
General Accounting Manager
General Commercial Manager

PROTECTED

E1339
EXHIBIT 173
March 5, 1971 letter from W.O. McCoy
to C.R. Mott, Jr.

TENNESSEE RATES Federal Excise Tax -
Centrex Service
(File 5A2.14)

Nashville, Tennessee
March 5, 1971 RCS:em

Mr. C. R. Mott, Jr.
General Marketing Manager
Nashville, Tennessee

Dear Mr. Mott:

We have investigated the matter of the application of the Federal Excise Tax to Centrex main telephone service and find the tax law being interpreted correctly as it applies to Centrex services as offered in our tariffs.

There are no tariff solutions possible at this time which would allow uniform tax exemption for Centrex CU and Centrex CO customers under the present Tax Laws. The Company Headquarters and A. T. & T. Company recognize that this is a system-wide problem and have the matter under review. Obviously, the answer is not simple and a solution does not appear to be in the immediate future.

We will keep you advised of any proposals which may be forthcoming, and will be glad to discuss any recommendations which you care to make.

Yours very truly,

General Commercial Manager

USA 38a-475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
173

FPI-MI—9-24-78-50M-4417

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E1340
EXHIBIT 178
May 4, 1971 memorandum from
W.P. Campbell to G.W. Trout

Applicability of Federal Excise Tax to Centrex Service Charges

Mr. Norlander
No relief here
T

May 4, 1971

Mr. G. W. Trout: 5/4

This is in reply to your verbal request from Mr. Norlander inquiring as to the appropriateness of application of the 10% Federal Excise Tax on Centrex services.

We have discussed this matter with Comptroller's representatives at AT&T and in our Company and find that the tax is being appropriately applied in line with the service and equipment rate and code book tax designations. These designations were developed in 1965 by AT&T Bell System representatives assisting the Internal Revenue Service in classifying the various categories of service.

We have also reviewed this matter with Rate representatives of various Associated Companies as well as at AT&T. In discussing the matter with Mr. R. Kemp at "195" he indicated complete knowledge of the disadvantageous position we find ourselves in taxwise on Centrex service and felt that nothing could be done to alter the situation. Accordingly, he requested that we continue to administer billing on Centrex and PBX accounts in line with the established tax status codes.

W.P. Campbell

WCS:ED

USA 33a-475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
178

FPI MI--9-24-75-80M 6417

E1341
EXHIBIT 181
June 4, 1971 memorandum from IRS National Office to IRS District Director, Manhattan

memorandum

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
181

to: District Director
Manhattan District Office

from: National Office

JUN 4 - 1971

subject: New York Telephone Co.
140 West Street (Room 2000)
New York, New York 10007

This is in reply to your memorandum requesting technical advice concerning the applicability of the tax imposed by section 4251 of the Internal Revenue Code to certain services and facilities furnished by the New York Telephone Company, hereinafter referred to as Telephone Company, to its subscribers. The questions you ask are as follows:

(1) Has payment been made pursuant to the "Division of Revenues" contract by the American Telephone and Telegraph Company for official toll telephone calls?

(2) Are amounts received by the Telephone Company for telephone accessories and/or equipment subject to the communications tax imposed by section 4251(a) of the Code where associated with unrestricted or partially restricted Centrex stations?

(3) Is the New York State Sales Tax as promulgated under State law subject to the tax imposed by section 4251(a) of the Code?

We regret the delay in responding to your request. We had delayed our response pending the outcome of an extensive consideration of your first issue. Upon its completion, we will advise you accordingly.

A conference was held with representatives from Telephone Company and American Telephone and Telegraph Company on the issues presented. Additional information was subsequently submitted.

Internal Revenue Service

E1342
Exhibit 181

District Director
Manhattan District Office

The information furnished shows that a Centrex service is a PBX service comprised of Centrex lines, dial apparatus which may be located on the premises of either the subscriber or the telephone company, an attendant switchboard of one or more positions located on the subscriber's premises, and trunk lines necessary for connection with the general exchange system. A restricted Centrex service means a Centrex line that can be connected only with stations of the same or other PBX systems of the same subscribers. A partially restricted Centrex consists of a Centrex line that can be connected with the general exchange service but only through an attendant, as well as to stations of the same or other PBX systems of the same subscriber. Unrestricted Centrex service allows interconnection of the Centrex lines with each other and with the general telephone service by direct dialing, both inward and outward.

Telephones in use with the Centrex service have certain accessories and/or equipment built into, or attached thereto. You have classified these as signals, buttons, equipment and turrets for clarity and expediency. When these items are furnished in connection with ordinary or business telephones, the service charge for the use of these items is subject to tax. When these items are furnished with any type of a Centrex service, tax is not collected on the charge for the use of these items. This is because the company considers that these items meet the definition for a private communication service as stated in section 4252(d) of the Code.

Representatives of the New York Telephone Company contend that the fact that the charge for an unrestricted or partially restricted Centrex service is subject to tax, because part of the charge is for local telephone service, does not mean that the charges for the use of the above accessories and equipment when furnished as part of the Centrex service are also subject to the tax. There are separate charges for each of the services listed and the payment of such a charge does not entitle the subscriber to local telephone service. Therefore, they suggest that the separate charges for each of the services listed meet the separate charge test of section 4252(d).

District Director
Manhattan District Office

Section 4252(a) of the Code defines local telephone service as (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system and (2) any facility or service provided in connection with a service described in paragraph (1). The term "local telephone service" does not include any service which is a "toll telephone service" or a "private communication service" as defined in subsections (b) and (d).

Section 4252(d), in defining "private communication service," provides for the inclusion of associated services which are provided in connection with a private communication system, but also provides that the term does not include any communication service unless a separate charge is made for such service. In explaining the exemption afforded private communication service, Senate Report No. 324, on the Excise Tax Reduction Act of 1965, Public Law 89-44, Internal Revenue Cumulative Bulletin 1965-2, 676, at 704, concludes that private lines and PBX systems generally will qualify for the exemption. However, Centrex systems generally will not qualify because a charge is not made for the private communication service portion which is separate and distinct from the amount paid for local telephone service.

Thus, when unrestricted and partially restricted Centrex service is furnished a subscriber, the charge for the entire service is subject to the Federal excise tax imposed by section 4251(a) of the Code on local telephone service. This is because there is no separation of the charges for the local telephone service and the private communication service furnished the subscriber. Therefore, we conclude that the charges for the use of signals, buttons, equipment and turrets with an unrestricted or partially restricted Centrex service are subject to the tax imposed by section 4251.

E1344
Exhibit 181

District Director
Manhattan District Office

New York State imposes a tax on the receipts from every sale, other than sales for resale, of telephony and telegraphy and telephone and telegraph service except interstate and international telephony and telegraphy and telephone and telegraph service. The Telephone Company argues that this tax is required to be collected from the customer when collecting the charge to which it applies. Therefore, this tax is imposed on the subscriber and not to be included in the basis for computing the Federal excise tax.

Section 4251(a)(1) of the Code which imposes the tax on amounts paid for local and toll telephone service and teletypewriter exchange service, also provides that this tax shall be paid by the person paying for the service. In addition section 4254(a)(1) of the Code provides that if a bill is rendered the taxpayer for local or toll telephone service, the tax with respect to such service shall be based on the sum of all charges for such service included in the bill.

The information furnished by the Sales Tax Bureau of the State of New York shows that the tax imposed by New York State is imposed on the subscriber rather than on the Telephone Company. Accordingly, such tax does not constitute a charge for service within the meaning of section 4254(a)(1) of the Code. Therefore, it should not be included in the basis for computing the Federal excise tax imposed by section 4251 of the Code.

-END-

E1345
EXHIBIT 183
June 17, 1971 memorandum to
R.M. Kemp with attachment

AT&T

Mr. Burkhalter
(FET file)
RMK 6/17/71
6-18-71

Mr. Kemp:

Attached letter regarding Federal tax on Centrex service received from Long Lines. Your comments please.

Thanks.
Wally Newman

USA 38a - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
183 id
FPI-MI—9-24-75-50M-4417

W. L. Newman
212 393-4219

FORM U1[illegible]
10-[illegible]

E1346
Exhibit 183

LONG LINES

Arlington Heights, June 7, 1971

OUR FILE
IN REPLY TO
YOUR FILE

Mr. R. A. Johnson
Long Lines Marketing
New York

You recently indicated your interest in competitive situations that we encounter in the field.

United Air Lines has expressed considerable concern to us over the Bell System's rate structure on Centrex systems under which there is no separation of public and private line service. As a result, the entire charge has the federal excise tax applied. An example in their case is the airport service at San Francisco where their current tax using a 701 PBX is $80/month, but following the proposed cutover to Centrex it becomes $1500/month. Presently their tax for two locations in Chicago area exceeds $2600/month.

They readily point out that this puts Bell System Centrex service at a decided competitive disadvantage to that of privately owned systems where taxed portions are easily separated.

We have inquired at "195" and with some Associated Companies and find that this concern is being shown by other customers throughout the country. However, although several indications show that tariffs could be restructured, apparently no definite breakthrough is anticipated in the near future.

In addition to the competitive disadvantage in the PBX field, I do not feel it is in the best interests of the Bell System to have customers challenge our rate structure with the Internal Revenue Service as it applies to taxation.

We have specifically requested a review of this structure in companies where United is part of a major Centrex. These locations are Chicago, New York, Denver, and San Francisco. There are other less significant locations and we expect many more conversions in future years.

[illegible]

E1347
Exhibit 183

I would appreciate your review of this situation in light of our concern over the effect of competition and will be happy to discuss it further with you.

Joe B. Moody
National Account Manager

JFW/mrb
cc: W. M. Guest--Sales Staff Manager
W. A. Robins--Marketing Director, National Accounts

E1348
EXHIBIT 186
June 11, 1971 letter from R.M. Smith
to R.T. Dugan

225 West Randolph Street, Chicago, Illinois 60606 Telephone (312) 727-6435

Illinois Bell

Richard M. Smith
assistant vice president—marketing

Mr. O'Boyle

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
186

June 11, 1971

Mr. R. T. Dugan
Assistant Vice President
American Telephone & Telegraph Company
195 Broadway
New York, New York 10007

Dear Dick:

The Federal Excise Tax applies to CENTREX service terminals and not to either our PBX terminals or any competitive offering. Both the fact and the inconsistency of this situation cause difficulty in that it penalizes CENTREX service both in comparison with any competitive offering and also with our own PBX services. Presently, 23% of our CENTREX/PBX stations are CENTREX served. With such popularity, new features coming and probable reductions in station minimums accessing larger segments of the market, the significance of the offering is bound to increase. Also, our DID/AOID interconnect filings will bring head-on CENTREX service competition. All of this prompts us to request that we press now to have this 10% tax surcharge equalized or removed.

We're not completely familiar with the basis on which the distinction was made, but the basic customer operational functions are identical and the technical differences seem more incidental than would justify the different tax treatment. The rationale in the Excise Tax Reduction Act - 1965 shows sensitivity to the damaging competitive effect of the F.E.T. between private vs. Bell System suppliers. Thus, it would seem that we have a basic premise on which to pursue the matter. We hope the remarks in the Act on billing differences are not controlling as they relate to inherent differences in the two service approaches. Further, it could be well worth the trouble to devise a rate technique that would segregate the station rate to acknowledge that some portion of it does provide an "exchange" oriented function. However, the billing approach appears to be a superficial reason to withhold relief in the face of the basic harm caused by the tax.

We would appreciate your working to achieve changes such that equivalent communications functions receive a comparable tax application. In addition to the specific benefits of equalizing the F.E.T., I'm sure a modification of the Federal Government rules would generate the excellent by-product of providing a precedent useful in modifying various state and local tax rules that discriminate in favor of competitive suppliers.

Sincerely,

Dick

E1349
EXHIBIT 187
June 10, 1971 memorandum to R.T. Dugan

Mr Birkinshaw
6/21

Mr Kemp

[illegible]

Mr. Dugan
Thanks -
[illegible] 6/15

June 10, 1971

MEMORANDUM

R. T. Dugan:

We have been actively engaged in determining a method that will be acceptable to the Federal Tax Authorities to mitigate the Federal Excise Tax on Centrex service. As you know, the 10% FET applies to the entire Centrex service because the rate structure combines trunks, common equipment, wiring and station charges into a single main station rate. Conversely, in the PBX universe, trunks are rated separately from the other component parts of the service and are therefore the only taxable item.

At the present time, several Companies are grappling with this problem in an effort to improve their competitive position. Among these are Pennsylvania, South Central, Southwestern, Pacific and Illinois.

Southwestern Bell has recently undergone an IRS audit of FET collection. The auditors are trying to extend FET to all supplemental equipment associated with Centrex. They have told Southwestern Bell to begin taxing and bill two years back taxes. Hopefully, a Centrex rate "split" could block this.

We now are drafting a letter to the Companies explaining what we consider to be the best alternative of several possible plans we have considered. Basically it involves a modified rate structure for Centrex service that provides a two component charge, one for exchange access and the other for intercommunication. These charges can be derived from the original cost studies used to set the level of the Centrex station rates.

RW Kemp
for J. B. O'Boyle

cc: E. Hancharik
W. J. Rinkor

USA 33a-475
(ED. 4-23-71) PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

187

FPI-MI—9-24-75-50M-4417

E1350
EXHIBIT 189
June 11, 1971 letter with attachment
from W.H. Bowen, Jr. to R.T. Dugan

Southwestern Bell Telephone Company

1010 Pine Street, St. Louis, Missouri 63101

Telephone 314-247-3371

W. H. Bowen, Jr.
Vice President–Staff

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
189

June 11, 1971

Mr. R. T. Dugan, Assistant Vice President
American Telephone & Telegraph Company
195 Broadway - Room 1828
New York, New York 10007

Dear Mr. Dugan:

This will confirm discussions with your staff concerning the ruling by the Internal Revenue Service on the application of Federal Excise Tax to certain services provided by our Company. The local Internal Revenue Office referred the matter to their Washington Office for technical advice. Attached for your information is a copy of the Washington reply.

With respect to the application of Federal Excise Tax to Centrex service, the ruling advises that such tax is applicable to all unrestricted stations as well as amounts paid for individual telephone accessories and equipment built into or attached to unrestricted stations.

The ruling is based upon the definition, under Section 4251 of the Internal Revenue Code, of local telephone service and private communication service since with our Centrex offering there is not a separate charge for that portion of a Centrex system which meets the definition of a private communication service.

The Internal Revenue Service is insisting that we start billing promptly on the basis of the ruling. In addition, they are requesting that we bill for the tax retroactively to about January 1, 1969, which would be within the statute of limitation of three years.

In an effort to accommodate our present customers, enter the field of competition without the tax constraint and meet the definitions under the Internal Revenue Code, we are currently considering a revision of our Centrex Tariff offering as discussed with your staff. We would revise the offering to

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E1351
Exhibit 189

establish a charge per unrestricted station for the local exchange trunk service and a separate charge per station for the private communication portion of Centrex service. This would be accomplished by reallocation of the revenue requirement for the various components used in the development of the Centrex unrestricted station rate. This method of separating the charges would not affect the billing to our present Centrex customers. However, at this time we do not know whether this proposed revision—would be acceptable, cause future problems or meet the test under the Internal Revenue Code. Of course, the other alternative would be to accept the ruling and bill our customers accordingly.

We believe this matter has total Bell System implications and would appreciate your comments on our proposal or other suggestions which you have to offer. As indicated above, we need to act on this matter promptly.

Very truly yours,

W. H. Bowen, Jr.

Attachment

PROTECTED

E1352
Exhibit 189

memorandum

to: District Director
St. Louis District Office

APR 28 1971

from: National Office

---

subject: Southwestern Bell Telephone Company
1010 Pine Street
St. Louis, Missouri 63101

This is in reply to your request for technical advice concerning the applicability of the tax imposed by section 4251 of the Internal Revenue Code to certain services and facilities furnished by Southwestern Bell Telephone Company (hereafter referred to as SWB). Your questions are as follows:

1) Are amounts paid for individual telephone accessories and equipment (listed below) built into or attached to the telephone subject to the tax imposed by section 4251 of the Code when connected to a communications service package called CENTREX with unrestricted CENTREX stations?

2) Has payment been made by American Telephone and Telegraph Company (hereafter referred to as AT&T) for taxable official and personal toll telephone service?

3) Has payment been made by AT&T for taxable services for the 50 percent non-billed portion of local telephone service?

4) Is the three percent Missouri State Sales Tax, which is imposed on SWB and passed on to customers, subject to the tax imposed by section 4251 of the Code?

We regret the delay in responding to your request. We had delayed our complete response pending the outcome of an extensive consideration of your second issue. Upon

Internal Revenue Service

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E1353
Exhibit 189

its completion we will advise you on that issue.

A conference was held with representatives of both SWB and AT&T and certain items of additional information were subsequently submitted.

The available information discloses the following facts and circumstances concerning the first question. The accessories and equipment referred to are listed as follows: Key illumination light, pickup per telephone per line, wink hold relay, hold button, combined line and busy control units, line hold relay, explosive atmosphere telephone wall, and explosive atmosphere telephone desk. SWB furnishes a complete communication service package called CENTREX which provides private communication service in addition to local and toll telephone service.

Where the individual telephone accessories or items of equipment listed above are built into or attached to telephones furnished in connection with CENTREX with unrestricted CENTREX stations, SWB has not been collecting the Federal excise tax on the charges for these accessories and items of equipment. The reason given for not collecting the tax is the determination by SWB that these services qualify as "private communication service" for which there is a "separate charge", as required by section 4252(d) of the Code.

It is contended that the fact that the charge for an unrestricted CENTREX station is subject to tax, because part of the charge is for local telephone service, does not mean that the charges for the eight listed services furnished to a customer as part of his CENTREX service are also subject to tax. There are separate tariff charges for each of those eight services and the payment of those charges will not entitle a subscriber to local telephone service. Therefore, SWB maintains, in the case of those listed services furnished a customer as part of his CENTREX service, the separate charge test of section 4252(d) of the Code is met, whether or not those charges are separate-

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"FOR USE OF COUNSEL ONLY"

E1354
Exhibit 189

ly billed to customers, and the Federal communication tax is not applicable to payment of such charges.

Section 4252(a) of the Code defines local telephone service as (1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and (2) any facility or service provided in connection with a service described in paragraph (1). The term "local telephone service" does not include any service which is a "toll telephone service" or a "private communication service" as defined in subsections (b) and (d).

Section 4252(d), in defining "private communication service", provides for the inclusion of associated services which are provided in connection with a private communication system, but also provides that the term does not include any communication service unless a separate charge is made for such service. In explaining the exemption afforded private communication service, Senate Report No. 324, on the Excise Tax Reduction Act of 1965 (Public Law 89-44), Internal Revenue Cumulative Bulletin 1965-2, 676, at 704, concludes that private lines and PBX systems generally will qualify for the exemption from tax. However, CENTREX systems generally will not qualify because a charge is not made for the private communication service portion which is separate and distinct from the local telephone service.

Thus, when CENTREX service with unrestricted stations is furnished a subscriber, the charge for the entire service package is subject to the Federal excise tax imposed by section 4251(a) of the Code on local telephone service, because there is not a separate charge for the private communication service as required by section 4252(d). Since the entire charge for the unrestricted CENTREX service is taxed as local telephone service, the services and facilities furnished in connection with the CENTREX service meet

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E1355
Exhibit 189

the section 4252(a)(2) definition of taxable service.

Therefore we conclude the eight services listed in connection with question 1, when furnished as part of a customer's unrestricted CENTREX service, are subject to the tax imposed by section 4251(a) of the Code.

The information submitted concerning the third question discloses there exists a joint practice between AT&T and the related companies of the Bell System, including SWB, which provides for a 50 percent discount on all types of official exchange service furnished to AT&T in its offices or other places of business. This discount is not afforded unrelated companies.

There is, in addition to the discount practice, an agreement known as a License Contract with AT&T under which AT&T performs various research and manufacturing services, furnishes advice and assistance, and maintains connections between the SWB telephone system and the telephone systems of the other related companies of the Bell System. For the services furnished under the License Contract, AT&T accepts payment on the basis of one percent of gross earnings of each of the Bell System companies. This amount appears to be less than the amount specified in the contract.

Section 49.4251-2(b) of the Facilities and Services Excise Tax Regulations provides that the term "amounts paid" means the amounts collected for the communication services specified in paragraph (a) of the section without regard to whether the charge therefor is paid or satisfied in money, service, or other valuable consideration.

The combination of the discount on services to AT&T and the acceptance by AT&T of less than the specified rate of the License Contract thus raises the question of whether there has been payment in kind to SWB for the unbilled portion of services.

No information was supplied indicating when either the 50 percent discount practice or the acceptance by AT&T of

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E1356
Exhibit 189

less than the specified rate under the License Contract began. However, there are indications that the License Contract may have been in general usage as early as 1930, at which time it appears the rate of compensation specified was two and one half percent of gross revenues. This rate apparently was reduced in 1948 to the present one percent of gross revenues. A copy of a License Contract (not with SWB), with an effective date of July 1, 1968, contains the larger rate; however, a letter from AT&T modifies the contract by specifying that the lower rate is effective on that same date.

The Missouri Statutes, in section 392.220, paragraph 3, permit telephone and telegraph companies to provide service free, or at reduced rates, to officers and employees of other telephone and telegraph companies. Also, Revenue Ruling 54-332, C.B. 1954-2, 417, sets out the position that telephone services furnished to employees at a discount are subject to the excise tax only on the amount actually paid for the services.

As it has not been shown that the 50 percent discount is not a bona fide discount, the rationale expressed in Revenue Ruling 54-332 is applicable. Also, regarding the discounting of charges to AT&T for local services and the acceptance by AT&T of less than the specified contract rate under the License Contract, no information has been submitted to show that these reductions are off-setting compensation. Thus, we do not find that there is any connection between these two practices. Therefore, we conclude there has been no amount paid to SWB in money, service, or other valuable consideration, other than the 50 percent billed portion.

In the information submitted by and on behalf of SWB, it is contended that State-imposed sales taxes cannot be included in the tax base for Federal excise tax purposes unless such State taxes are included in the filed tariff schedules. It is argued that no more and no less than the amounts shown on filed schedules may be charged customers

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E1357
Exhibit 189

for telephone services. However, these State taxes, which are imposed upon the telephone company, are admittedly passed on to, and collected from these customers.

Section 4251(a)(1) of the Code which imposes a tax on amounts paid for certain communication services, including local and toll telephone services, also provides that this tax shall be paid by the person paying for the service. In addition, section 4254(a)(1) of the Code provides that if a bill is rendered the taxpayer for local or toll telephone service, the tax with respect to such service shall be based on the sum of all charges for such service included in the bill.

Unlike the Federal excise tax on communications which is imposed on the person paying for the service, the State sales tax under consideration is imposed on the telephone company engaged in the business of providing the service. Thus, when the telephone company passes on such State sales tax to its customers, the tax constitutes an element of the cost of providing service and is directly attributable to the telephone service provided. The fact that an amount attributable to State tax is passed on and is separately stated as "State Tax" on bills sent to customers does not change the legal incidence of the tax. This rationale, as set out in Revenue Ruling 69-151, C.B. 1969-1, 288, sets forth the Service's long-standing position in this regard.

Based on the information furnished, we conclude that the State sales tax referred to herein, which is imposed upon the telephone company but is passed on to customers and separately stated on customers' bills, may not be excluded in determining the amount upon which the Federal excise tax on communications is computed.

- END -

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E1358
EXHIBIT 190
June 15, 1971 memorandum with attachment from
R.T. Dugan to J.B. O'Boyle, copy
to V.E. Ferrall

AT&T

June 15, 1971

Mr Kemp

MR. ~~O'BOYLE~~:

Please prepare a reply for my signature. It becomes clearer every day that two things should be pursued with regard to excise tax on CENTREX:

1. Fractionalize our CENTREX rate to identify a trunk element which would be used in computing excise tax. This trunk element will also improve our competitive posture in connection with COAM equipment providing CENTREX-type services.
2. Equality of tax treatment where CENTREX features are provided by common carriers or someone else.

RTD

cc: Mr. Ferrall

R. T. Dugan
Assistant Vice President
212 393-3306

USA 33a-475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

190

FPI-MI—9-24-75-50M-4417

225 West Randolph Street, Chicago, Illinois 60606 Telephone (312)

04778

E1359
Exhibit 190

Mr. O'Boyle

Illinois Bell

Richard M. Smith
assistant vice president—marketing

June 11, 1971

s
Mr. R. T. Dugan
Assistant Vice President
American Telephone & Telegraph Company
195 Broadway
New York, New York 10007

Dear Dick:

The Federal Excise Tax applies to CENTREX service terminals and not to either our PBX terminals or any competitive offering. Both the fact and the inconsistency of this situation cause difficulty in that it penalizes CENTREX service both in comparison with any competitive offering and also with our own PBX services. Presently, 23% of our CENTREX/PBX stations are CENTREX served. With such popularity, new features coming and probable reductions in station minimums accessing larger segments of the market, the significance of the offering is bound to increase. Also, our DID/AOID interconnect filings will bring head-on CENTREX service competition. All of this prompts us to request that we press now to have this 10% tax surcharge equalized or removed.

We're not completely familiar with the basis on which the distinction was made, but the basic customer operational functions are identical and the technical differences seem more incidental than would justify the different tax treatment. The rationale in the Excise Tax Reduction Act - 1965 shows sensitivity to the damaging competitive effect of the F.E.T. between private vs. Bell System suppliers. Thus, it would seem that we have a basic premise on which to pursue the matter. We hope the remarks in the Act on billing differences are not controlling as they relate to inherent differences in the two service approaches. Further, it could be well worth the trouble to devise a rate technique that would segregate the station rate to acknowledge that some portion of it does provide an "exchange" oriented function. However, the billing approach appears to be a superficial reason to withhold relief in the face of the basic harm caused by the tax.

We would appreciate your working to achieve changes such that equivalent communications functions receive a comparable tax application. In addition to the specific benefits of equalizing the F.E.T., I'm sure a modification of the Federal Government rules would generate the excellent by-product of providing a precedent useful in modifying various state and local tax rules that discriminate in favor of competitive suppliers.

Sincerely,

Dick

E1360
EXHIBIT 194
August 12, 1971 memorandum from
C.J. Halpern to V.E. Ferrall

August 1 , 1971

Mr. V. E. Ferrall:

As you are aware, this company is in the process of recommending that System companies revise their tariffs to provide a separate charge for the exchange access and for the intercommunication portion of Centrex service in order to reduce the competitive pressure generated by the Federal excise tax.

The Diamond State Telephone Company presently has an acute competitive problem with the DuPont Company, and is planning to file a revised tariff in the very near future. Representatives of the Pennsylvania company tax and rate departments were here this morning and discussed the matter with Mr. Kemp of our rate organization and with Mr. Erickson and Mr. Tindall of our section.

It would appear to us that the proposed rate structure (see attached) would satisfy the requirements for splitting off the intercommunication portion of Centrex and thus make it nontaxable.

The latest date on which the proposed revision can be filed to resolve the DuPont problem is August 20. As matters now stand, they plan to file the tariff unless in your opinion it will not have the intended excise tax effect.

Inasmuch as I will be on vacation next week, will you please inform Mr. Erickson of your position in this matter.

CYRUS J. HALPERN

Attachment

USA 33e - 475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

194 id

FPI MI—9-24-75-30M-4417

E1361
EXHIBIT 196
Memorandum written August 16, 1971 from
A.X. Ichter to W.J. Wohlhagen

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MR. WOHLHAGEN -

Jim Griffith and I met Thursday, August 14, with Hal Tindell, Carl Erickson and Bob Kemp at '195.' The meeting went well and, I feel, we obtained clearance to file our proposed Centrex revisions in Delaware promptly.

Those present agreed that:

- earlier IRS rulings have clearly established that if and when a Centrex charge for exchange access were to be established, it and only it, would be to subject to FET.
- our proposed Exchange Access Charge per Centrex Station is derived suitably to meet the above requirement.
- no advance discussion with IRS is planned.
- Kemp will recommend basically the same sort of Centrex restructuring Systemwide.

After the meeting, Erickson wrote a memo to Ernie Charvat in Legal detailing our plans. Subsequently, Charvat had discussions with Kemp which, Bob tells me, indicated Legal endorses our plans as well.

The only item which generated pro and con discussion on Thursday was the matter of whether or not DID and AIOD furnished on CPE systems should be subject to FET. The consensus opinion was that they should not, on the following basis:

- AIOD is not a telecommunications service - it is a bookkeeping function. FET was never applied to Q-Z service on that basis and AIOD is functionally just like Q-Z.
- DID will be charged for on a "per number" basis making it a charge for service unique to a particular customer's internal communications. Completion of traffic to such numbers will require equipment both in our office and on the customer's premises. Also, functionally DID is a replacement for attendant equipment, not traditionally subject to FET.

USA 83a - 475
(ED. 4-28-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

196

E1362
Exhibit 196

If the above rulings hold, the calculation of our Exchange Access Charge levels is valid. Should they be reversed we would have something of a problem. If either AIOD or DID were subjected to FET, our Centrex offering would enjoy a competitive advantage as our Exchange Access Charges do not include those cost elements. In view of our deadlines, we will have to proceed on the basis of current opinions, of course.

Only one other item came out of the meeting. Erickson feels that it is important our tab sheet (or other comparable billing backup data) identify, by name and rate, the taxable and non-taxable rate elements. This is important in tax audits. I will pursue that point with Colwell and be sure that Erickson has reviewed and accepted their new format.

Attached are copies of the charts I used in the meeting so that you can see what other points were covered.

AXI
5/16/71

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E1363
EXHIBIT 197
September 10, 1971 memorandum from
G.H. Ruschhaupt to E.S. Gill

PREPARED FOR USE OF COUNSEL ONLY

Mr Ruschhaupt
Geo- ?
Ed
9/13

Mr Gill
E.L. - see question

September 10, 1971

Mr Caskie.
~~MR. GILL~~:

Re: Centrex Rate Restructuring

After reviewing the matter with our Comptrollers people, the Law Department and the '195 rate group, it would appear that we could consider filing Centrex Exchange Access charges for Pennsylvania to be effective by billing dates beginning on November 4. ✓

From a conversion standpoint, the Comptrollers people indicate that they can handle such a conversion within this time frame:

- the earlier October 24 conversion in Delaware will serve as a pilot program for the Pennsylvania conversion.
- the methodology of the conversion in Pennsylvania will be tested through several billing periods in advance of the earliest possible date when rate case changes could be effective.

[illegible]

Mr. Clarke in Law has considered the implications of making such a filing in advance of the resolution of our general rate proceedings. In his opinion, the change we propose can be made without any procedural or other effect on the rate case.

[illegible]

'195 is moving ahead with a letter recommending Systemwide conversion to the two-rate approach. Their letter should be circulated prior to our filing date in Delaware. Accordingly, they will be committed to this rate plan and see no need for delaying a Pennsylvania filing.

We are preparing and will circulate a rate sheet within the next few days covering the Centrex Access Changes in Pennsylvania. However, it will be necessary to obtain special permission to file on a less-than-statutory-notice basis to meet the critical November 4 effective date. ✓

GHR

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U. S. DIST. COURT
S. D. OF N. Y.
97

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E1364
EXHIBIT 198
September 15, 1971 memorandum from
W.J. Rinkor to R.T. Dugan

Mr Kemp

September 15, 1971

Mr. Dugan:

The following item may be of interest to Mr. Bonsack for his Monday morning meeting.

EVENT

Bell of Pennsylvania will file with the Delaware Commission on September 24 for a revision in the Centrex tariffs to split the present station char into two components: an exchange component, and an intercommunication component. This will be accomplished without any net price change to a Centrex customer. However, only the exchange portion will be subjected to Federal Excise Tax. They are filing this change to become effective October 24.

USA 384-415
(ED. 4-28-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
198

A similar filing will be made in Pennsylvania on November 3 to become effective in less than statutory interval on November 4.

BACKGROUND

Earlier this year, IRS audited Southwestern Bell to determine whether Fe Excise Tax was being properly applied. IRS findings were that Southweste should begin applying F.E.T. to all supplemental equipment associated with taxable Centrex stations.

This caused immediate concern here, since none of the Companies now tax such equipment on Centrex. IRS was told that steps would be taken to split the Centrex station rate thus removing supplemental equipment from taxation on Centrex.

GENERAL LETTER

A general letter recommending that Centrex station rates be split into two components and providing a methodology for doing it, has been circulated interdepartmentally at '195' for comment. The comments are now in hand and the letter is being retyped. It will be issued this month.

EFFECT

It is extremely difficult to estimate what the Systemwide tax savings for customers might be, since certain classes of Centrex customers are now exempt from F.E.T. (governmental, charitable, etc.) yet they are all included in our basic count of Centrex working stations. Recognizing this infirmity, a very rough estimate is that about $10 million a year might be saved by our customers as a result of this change.

Original Signed By
W. J. RINKOR

W. J. Rinkor

RMK:pj

Called Ichter
he will mail
pertinent documents
to me today 9-15.

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
199

E1365
EXHIBIT 199
Memorandum from E.S. Gill to Vice
Presidents and General Managers

Septe. 27, 1971

VICE PRESIDENT AND GENERAL MANAGER - EASTERN AREA:
VICE PRESIDENT AND GENERAL MANAGER - WESTERN AREA:
VICE PRESIDENT AND GENERAL MANAGER - CENTRAL AREA:
VICE PRESIDENT AND GENERAL MANAGER - PHILADELPHIA AREA:

Impending tariff filings will significantly alter the structure of charges for Centrex service and the Federal Excise Tax (FET) applications thereon. It seems appropriate to review with you some of the factors which precipitated these changes and to discuss briefly their impact on our subscribers.

As you know, Congressional action in 1965 excluded from the application of FET, those charges which cover "Private Communications Services". On the basis of this distinction, on PBX systems only exchange trunk charges are subject to FET. In the case of Centrex systems, however, exchange access costs are "buried" in the unrestricted main station rate and, consequently, the total unrestricted station charges are taxable. As a result of this difference in the basis of FET applications, a Centrex customer's FET liability is nearly seven times as great, on the average, as that of a customer with a comparably sized, and trunked PBX system.

Effective by billing periods beginning on October 24 in Delaware and November 4 in Pennsylvania, the Centrex unrestricted main station charge is being replaced by schedules of Centrex Exchange Access Charges and Centrex Intercommunication Charges each of which are to be applied on a per unrestricted main station basis. As this new structure separately identifies the exchange access and "Private Communications Services" portions of the Centrex, it permits taxation of the former and exclusion of the latter -- resulting in FET liabilities for Centrex basically equal to those of PBX. Attachment A illustrates the new schedules.

These new schedules were designed through a process of allocation of existing charges so that the two rates per station, when added together, will in all cases equal the currently effective unrestricted station rate level. Consequently, the revised tax applications are effected without actual rate change to any Centrex subscriber.

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E1366
Exhibit 199

We have computed the tax effects of the new filing for all other Centrex customers based upon data secured from your people in the Centrex survey completed this past April. Attachment B reflects these tax effects on a customer-by-customer basis.

In covering these changes with customers your people may encounter questions as to the restructuring of Centrex charges on a similar basis outside of Pennsylvania and Delaware. They could respond by stating that the matter is under consideration in all Bell System Associated Companies. In point of fact, our '195 counterparts have reviewed our plans and have recommended Systemwide adoption of the two-rate approach. We already have indications that several other Associated Companies are planning similar filings.

Care should be exercised, however, to avoid conveying the impression that our filings have been "cleared" with the Internal Revenue Service (IRS) - for, in reality, they have not. General principles pertaining to the application of FET to Centrex service have been developed over the years with the participation of IRS. After careful consideration of this aspect by our people most familiar with such matters, it is felt that the FET applications to the new structure are consistent with earlier IRS rulings. Even so, it is entirely possible that the filings (which reduce Centrex customers' FET liabilities by over $450,000 per year in Pennsylvania and Delaware alone) will be challenged.

We are electing to proceed in the face of some uncertainty as it would seem to be in the best interests of our customers to file our changes without awaiting a potentially lengthy clarification process. In this way the benefits of the new FET application will accrue to our customers during this clarification period. Moreover, we are confident that these changes are entirely within the spirit and letter of the most recent Congressional action defining FET applications and would withstand such a challenge.

Still another aspect of these filings which may be questioned by our Centrex customers is the matter of timing. The memorandum which is Attachment C may be useful to your contact people in this connection.

With the introduction of these charges during the period of November 4 to December 3 in Pennsylvania, it is entirely possible, for customers in billing periods late in the month, that the Pennsylvania rate case changes will take effect prior to the effective date of these changes. In that event revised schedules of Centrex Exchange Access and Intercommunication charges will be filed and we will recompute the tax changes on the basis of the new schedules and transmit the revised figures directly to the General Sales Managers.

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E1367
Exhibit 199

The new structure should enhance our efforts to promote Centrex service as it will eliminate a fairly important road block to upgrades of PBX accounts (i.e. the currently unfavorable comparison of PBX and Centrex tax liabilities). Moreover, the new schedule puts us in a much better position to meet the challenge of competition when, in the not-too-distant future, we are prepared to offer Indialing and Automatic Identification of Outward Dialing services to customer-provided PBX systems.

You will also want to review now pending Centrex proposals, or such proposals currently under development, in order to refelct the newer, more attractive, Federal Excise Tax aspects. Mr. R. F. Stigler, 215-466-4786 is available to work with your people in this regard or in any other way in which he could be helpful administering the new schedules.

< sp.

Vice President - Marketing

Attachments

Copies to - General Marketing Manager - Eastern
General Marketing Manager - Western
General Marketing Manager - Central
General Marketing Manager - Philadelphia
Assistant Vice President - Operations Methods and Training

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E1368
Exhibit 199

Attachment A1

CENTREX SCHEDULE RESTRUCTURING - BELL TELEPHONE COMPANY OF PENNSYLVANIA

Per Unrestricted Main Station at the Main Location	Present Schedules A	Present Schedules B	Present Schedules C	Proposed Schedules: Intercommunication Charge* (Plus Sch A,B, or C) (Exch. Acc. Chg.)	Proposed Schedules: Exchange Access Charge A	Proposed Schedules: Exchange Access Charge B	Proposed Schedules: Exchange Access Charge C
First 50	$10.50	$11.00	$9.75	$7.75	$2.75	$3.25	$2.00
Next 50	10.00	10.50	8.75	7.75	2.25	2.75	1.00
Next 200	7.00	7.50	5.75	5.05	1.95	2.45	.70
Next 600	6.00	6.50	5.75	5.05	.95	1.45	.70
Over 900	4.25	4.50	4.00	3.85	.40	.65	.15

At all premises other than the main location:

Per Unrestricted Main Station	Present Schedules A	Present Schedules B	Present Schedules C	Proposed Schedules: Intercommunication Charge*	Proposed Schedules: Exchange Access Charge A	Proposed Schedules: Exchange Access Charge B	Proposed Schedules: Exchange Access Charge C
First 50	$8.50	$9.00	$7.75	$6.55	$1.95	$2.45	$1.20
Next 250	8.00	8.50	6.75	6.05	1.95	2.45	.70
Next 600	6.00	6.50	5.75	5.05	.95	1.45	.70
Over 900	4.25	4.50	4.00	3.85	.40	.65	.15

* Not subject to Federal Excise Tax

CAUTION

E1369
Exhibit 199

CENTREX SCHEDULE RESTRUCTURING - DIAMOND STATE TELEPHONE COMPANY

Per Unrestricted Main Station at the Main Location	Present Schedules A	Present Schedules B	Proposed Schedules: Intercommunication Charge* (Plus Sched. A or B) (Exch. Acc. Chg.)	Proposed Schedules: Exchange Access Charge A	Proposed Schedules: Exchange Access Charge B
First 50	$12.10	$12.65	$7.00	$5.10	$5.65
Next 50	10.45	11.00	6.30	4.15	4.70
Next 200	8.55	9.10	5.30	3.25	3.80
Next 600	6.90	7.45	5.15	1.75	2.30
Over 900	4.70	4.95	4.20	.50	.75

At all premises other than the main location:

Per Unrestricted Main Station	Present Schedules A	Present Schedules B	Proposed Schedules: Intercommunication Charge*	Proposed Schedules: Exchange Access Charge A	Proposed Schedules: Exchange Access Charge B
First 50	$ 9.90	$10.45	$6.65	$3.25	$3.80
Next 250	9.35	9.90	6.10	3.25	3.80
Next 600	6.90	7.45	5.15	1.75	2.30
Over 900	4.70	4.95	4.20	.50	.75

* Not subject to Federal Excise Tax

Attachment A2

Attachment B2

E1370
Exhibit 199

FEDERAL EXCISE TAX (FET) IMPACT OF PROPOSED DIAMOND STATE CENTREX SCHEDULE CHANGES

(All figures are monthly and are based upon data secured in a May 1971 special study)

pecially Rated Centrex Type Services --	Current FET	FET Which Would Apply Under Current Effec. Tariffs	FET Which will Apply Under Proposed Tariffs	FET Effects of Proposed Tariffs (1)
uPont - 10th & Market	$593.18	$3982.66	$1015.02	$-2967.64
- Wilmington Shops	22.30	139.23	81.14	- 108.09
- Christianna Lab	26.76	277.50	118.00	- 159.50
- Crebs (Newport)	26.76	266.58	113.44	- 153.14
- Edgemoor	24.53	331.54	137.16	- 194.38
- Experimental Station	218.54	1533.53	453.03	-1080.50
- Louviers (Newark)	249.76	1515.78	382.90	-1131.88
- Chestnut Run	251.99	1452.68	423.24	-1029.44
Total - spec. rated svcs.	$1413.82	$9548.50	$2723.93	$-6824.57
Centrex Accounts (2)--				
duPont Glasgow	$319.94	-	$ 129.78	$- 190.16
Columbia Gas	251.79	-	104.32	- 147.47
International Playtex	539.06	-	207.30	- 331.76
Bank of Delaware	426.38	-	188.03	- 238.35
Total - Centrex services	$1537.17	-	$ 629.43	$- 907.74
Total - All Services	-	-	-	$-7732.31

Notes (1) Reflected here is the extent to which the proposed new tariffs will lessen the customer's tax increase on the specially rated accounts when converted to Centrex rates.

(2) The following four Centrex accounts are not subject to FET and are, therefore, unaffected by these changes:

State of Delaware - Kent County	University of Delaware
Newark School District	Wilmington Medical Center

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RUN

E1371
Exhibit 199

ATTACHMENT B1

TAXCGP 14:03EDT 09/14/71

CENTREX TAX CHANGES - BELL OF PENNA

	CURRENT FET	REVISED FET	DECREASE	% DECREASE
PHILA ##################				
AT&T	245.55	34.84	-210.71	-85.8
ASSOC HOSP	(1)			
AUERBACH CORP	169.95	24.48	-145.47	-85.6
N W AYER	277.65	37.54	-240.11	-86.5
BUTCHER & SHER.	234.60	32.53	-202.07	-86.1
CENT PENN	349.88	48.75	-301.13	-86.1
COLONIAL PENN	212.10	29.56	-182.54	-86.1
CONT INS CO	118.38	18.15	-100.23	-84.7
DEFENSE SUPPLY	(1)			
R H DONNELLEY	109.75	17.10	-92.65	-84.4
DRINKER BIDDLE	124.13	18.85	-105.28	-84.8
EMPLOYERS INS	121.13	18.69	-102.44	-84.6
FIDELITY BANK	(2)			
1ST PENNA CO	483.05	65.88	-417.17	-86.4
FRANKLIN INST	(1)			
GEN ELEC	1065.48	110.07	-955.41	-89.7
GEN ELECT CO	1845.25	200.77	-1644.49	-89.1
GIRARD BANK	1058.18	137.10	-921.07	-87.0
HORNBLOWER WKS	125.23	19.42	-105.81	-84.5
INTER REV SERV	(1)			
IBM CORP	538.28	72.40	-465.88	-86.5
INTENTL UTIL	217.85	30.26	-187.59	-86.1
JEFFERSON HOSP	(1)			
KEYSTONE AUTO	220.67	31.04	-189.64	-85.9
LAVENTHOL KREK	154.42	22.59	-131.84	-85.4
METROPOL HOSP	(1)			
MORGAN LEWIS	198.30	27.88	-170.42	-85.9
NAV SUP DEPOT	(1)			
PENN CENT RR	1319.82	170.81	-1149.01	-87.1
PENNA HOSPITAL	(1)			
PA STATE OFFICE	(1)			
PENNWALT INC	357.58	47.27	-310.31	-86.8
PHILA GAS WORKS	(1)			
PHILA ST. HOSP	(1)			
PHILCO-FORD #2	(2)			
PHILCO-FORD #50	(2)			
PROV NAT BANK	754.97	98.85	-656.13	-86.9
REL INS CORP	358.15	47.34	-310.81	-86.8
ROHM AND HAAS	697.20	76.79	-620.41	-89.0
SCHNADER HARR	165.50	24.40	-141.10	-85.3
SCHL DIS-PHILA	(1)			
SEARS ROEBUCK	556.47	73.10	-483.38	-86.9
TEMPLE UNIV	(1)			
TRAVELERS INS	160.55	23.31	-137.24	-85.5
US ARMY ELEC	(1)			
US GOVT GSA	(1)			
[illegible]				

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E1372
Exhibit 199

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AMER BAPTIST          (2)
BOEING VERTOL       634.68      85.02      -549.66    -86.6
DELAWARE COUNTY       (1)
FRANKLIN CENTER     186.23      26.41      -159.82    -85.8
LUKENS STEEL        526.90     109.03      -417.87    -79.3
W CHESTER STATE       (1)
WESTINGHOUSE        551.85      71.28      -480.57     87.1

WESTERN ###############

ALCOA              1326.00     148.77     -1177.23    -88.8
ALLEGNY COUNTY        (1)
AT&T SALES          363.33      53.67      -309.66    -85.2
BLAW KNOX CO        123.18      18.76      -104.42    -84.8
COMM OF PENNA         (1)
COMM ACTION PGH       (1)
DUQ UNIV              (1)
GEN SERV ADM          (1)
INDIANNA UNV          (1)
JON LAUG ST CO      932.88     115.30      -817.58    -87.6
JONES&LAUGHLIN      474.15     127.59      -346.56    -73.1
KIRKPTRCK ET AL      99.40      15.84       -83.56    -84.1
N AMER/ROCKWELL     193.05      27.60      -165.45    -85.7
PITTS NAT BANK      985.10     127.71      -857.39    -87.0
PPG                 854.10      94.30      -759.81    -89.0
PITTS PRESS         268.90      36.68      -232.22    -86.4
PRICE WRHSE CO      110.55      17.30       -93.25    -84.4
REED SMITH          200.80      28.21      -172.59    -86.0
US STEEL CORP      2742.35     233.81     -2508.54    -91.5
UNION NAT BANK      398.33      54.95      -343.38    -86.2
WESTINGHSE-DWTN     865.65     113.50      -752.15    -86.9
WESTINGHSE-EAST    3674.50     416.78     -3257.72    -88.7
WESTINGHSE NES      700.50      76.55      -623.95    -89.1

---TOTALS         35648.80    5236.49    -30412.31    -85.3

SCH A               526.90     109.03      -417.87    -79.3

SCH B              7083.35    1732.40     -5350.95    -75.5

SCH C             28038.55    3395.06    -24643.49    -87.9

*******************************************
*   NOTES - (1) ACCOUNT NOT SUBJECT TO      *
*               FEDERAL EXCISE TAX          *
*                                           *
*           (2) SPECIALLY RATED INDIAL      *
*               SYSTEM - NO TAX CHANGE      *
*******************************************

USED    3.08 UNITS
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E1373
Exhibit 199

Attachment C

PROTECTED

MEMORANDUM

WHEN A CUSTOMER ASKS ... 'WHY DIDN'T YOU RESTRUCTURE CENTREX RATES YEARS AGO?'

We will shortly file tariffs in Pennsylvania and Delaware which will drastically reduce Centrex customers' Federal Excise Tax (FET) liability through what is tantamount to a bookkeeping change. Customer's actual rate levels will not change - only their tax liability. Generally, customer's should be pleased to see their tax bill go down. Some can be counted upon, however, to ask for an explanation as to why we did not take this step earlier so that they could have enjoyed the lower tax rates for a longer period. Some understanding of the history of the application of this tax may be helpful in responding to such inquiries.

The basis for reducing Centrex customers' FET liability is competitve necessity. The current rate structure for Centrex service imposes a greater tax burden on Bell System Centrex services than that which will apply to outside supplier Centrex-type systems.

The Bell System is committed to offering Direct Inward Dialing (DID) and Automatic Identification of Outward Dialing (AIOD) to outside supplier PBX systems within the not-too-distant future. As such an offering subjects Centrex to direct competition with outside supplier systems, it is necessary that the Bell offering have FET liabilities basically equal to those of the competitive systems. The new rate structure accomplishes such an equalization.

Once before it was necessary to make adjustments in the application of FET to assure fair competition between Bell and outside supplier services. Bell PBX systems have been in direct competition with suppliers such as Terryphone, Stromberg-Carlson and others who offer various types of intercommunications services. The inherent tax advantage these competitors enjoyed was recognized and corrected, by Congressional Action in 1965, through the adoption of the "Private Communications Services" rule. This rule exempts from FET any service, Bell provided or otherwise, which is used exclusively by a customer for his intercommunications purposes. In the case of PBX services, with the advent of the Private Communications Services rule, FET became applicable only to central office trunks of a Bell-PBX system permitting fair competition between such systems and outside supplier intercom systems.

In summary, therefore, it is fair to state that the timing of the FET change now being undertaken was dictated by evolving technology and regulatory changes which have brought about direct competition between Bell and outside supplier Centrex services.

E1374
EXHIBIT 200
September 27, 1971 letter from R.T. Dugan
to Rate Heads and Marketing Heads

AT&T

American Telephone &
Telegraph Company
195 Broadway
New York, N.Y. 10007
Phone (212) 393-9800

subject: Centrex Rate Restructuring

date: September 27, 1971

file no. gl: 71-09-158
other:

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
200

to: Rate Heads, Marketing Heads

from: Assistant Vice President - Market & Service Plans - Exchange Services

synopsis: Recommends restructuring Centrex rates to achieve a more equitable application of Federal Excise Tax, together with a recommended method for unbundling the Centrex rates.

* * *

When Centrex was introduced in 1961, the Federal Excise Tax (FET) treatment imposed was the same as that which was being used on PBX's. In 1965, as a result of Congressional action, the application of FET to PBX's was changed to limit taxation to the central office trunks associated with the PBX. Centrex, because of its rate packaging approach, did not share in this tax change.

In 1965 and 1966 we reviewed the question of whether or not to restructure Centrex rates so that Centrex could obtain some FET relief too. Congressional attitudes and activity at that time, coupled with the then scheduled gradual reduction and final elimination of FET on telephone services by 1969, persuaded us to continue with the Centrex rate structure as it was then constituted. Subsequent Congressional action, however, continued FET and postponed the scheduled 1969 elimination.

Recent Congressional action has again scheduled gradual reduction of FET and its eventual elimination in 1982. This significantly longer time frame, together with two other basic considerations, seems to dictate the desirability of restructuring Centrex rates now.

The second consideration stems from a recent audit of one operating company by the Internal Revenue Service (IRS). The audit was to determine that FET was being applied properly by that company. Subsequent to the audit, IRS took the position that certain internal supplemental equipment associated with taxable Centrex stations should be taxed. Supplemental equipment associated with

PBX stations is not taxed by virtue of the fact that the PBX station charge is not taxed. This points up the third basic consideration -- competition. The imposition of FET on a total Centrex installation (including supplemental equipment) while applying it only to the central office trunks associated with a PBX, creates an internal competitive disadvantage for Centrex. Furthermore, this same FET liability is present in those situations where we are engaged in direct competition with outside suppliers.

Therefore, because of the protracted schedule for elimination of FET,, the question of expanding application of FET to Centrex supplemental equipment and the competitive considerations (both internal and external) it seems worthwhile to restructure Centrex rates now.

After considering a number of methods by which a restructuring of Centrex rates could be supported, we have concluded that the most defensible method results by usi[illegible] the basic data which supported the original filing, together with any subsequent changes that have occurred. The attached Notes cover, in detail, the recommended methodology using the data contained in the original and subsequent Centrex general letters for support. The basic rate restructuring objective is to make the change without increasing or decreasing the current rates for any Centrex customer. Accordingly, the restructured Centrex rates would be as follows:

PRESENT CENTREX RATE SCHEDULE

A. At Primary Location - Unrestricted Main Stations:

		Monthly Charge Per Station				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	*First 100	Next 100	Next 700	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$12.25	$8.00	$7.00	$4.50	$0.25
Schedule II (Flat Rate)	67,000 to 375,000	13.50	9.75	7.75	5.00	0.35
Schedule III (Message Rate)	Large City Metro. Area	9.50	6.25	5.75	4.00	0.50

*Minimum charge at primary location is that for 100 unrestricted Main Stations.

E1376
Exhibit 200

PROPOSED CENTREX RATE SCHEDULE

A. At Primary Location - Unrestricted [illegible] Stations:

#Monthly Charge Per Station for Exchange Access

		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	First 100	Next 100	Next 700	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$3.40	$3.25	$2.55	$1.35	none
Schedule II (Flat Rate)	67,000 to 375,000	4.60	4.45	3.55	1.85	none
Schedule III (Message Rate)	Large City Metro. Area	0.90	0.80	0.60	0.35	none

#Monthly Charge Per Station for Intercommunication

		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	First 100	Next 100	Next 700	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$8.85	$4.75	$4.45	$3.15	$0.25
Schedule II (Flat Rate)	67,000 to 375,000	8.90	5.30	4.20	3.15	0.35
Schedule III (Message Rate)	Large City Metro. Area	8.60	5.45	5.15	3.65	0.50

#Minimum charge at primary location is that for 100 unrestricted Main Stations. The total charge per station is the sum of the appropriate Exchange Access and Intercommunication charges. Only the Exchange Access charge is subject to Federal Excise Tax.

E1377
Exhibit 200

Comparison of the present and proposed rate schedule for secondary locations has been omitted here in the interest of brevity but it has a similar structure and is fully dealt with in the attached Notes.

Attendant position, fully restricted station and bridged extension rates remain unchanged and are exempt from FET since the component of central office trunk charge was not packaged with them. Similarly, the Centrex-CO station additive is based on value considerations surrounding the furnishing of floor space and power by Centrex customers and is also exempt from FET.

It seems singularly important that the companies use a common method for unbundling the Centrex rates. We feel that the recommended method produces results which meet the intent of the Congressional hearings and the code governing the collection of Federal Excise Tax. Therefore, any company which contemplates the use of a different unbundling methodology is requested to submit it for review by us before taking any formal steps leading to a revision of their tariffs.

The recommended restructuring of Centrex rates will have the greatest internal impact on the Accounting Department billing procedures, and to a lesser extent, some complication of the salesmens' negotiations with customers. The Assistant Comptroller will be writing to the field shortly with advice on the appropriate measures to be taken in revising the billing procedures. The rate and tariff activity should be coordinated locally with the Accounting Department. Some suggestions regarding the salesmens' negotiations are contained in the attached Notes.

Tom Burkinshaw, 212 393-4414, is prepared to work with your people on the marketing and rate aspects of this change.

R T Dugan

Assistant Vice President

Attachment

E1378
Exhibit 200

Notes Accompanying GL71-09-158

The General Letter transmitting these Notes covers the Federal Excise Tax (FET) changes since Centrex was introduced and the reasons why it is timely to restructure the Centrex rates now. These Notes will give further background on the FET code and details of the recommended Centrex rate restructuring method.

Background

The opportunity to achieve a changed FET liability for Centrex customers through a restructuring of the rates is contained in the Report of the Committee on Ways and Means accompanying HR 8371, Excise Tax Reduction Act of 1965 and the wording of the Internal Revenue Code of 1954. The Committee Report states that "--in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of telephonic quality communication which is taxed together with facilities or services provided with this service." At another point the Committee Report states that "It is understood that private lines and PBX systems generally will immediately qualify for this exemption. Howev , it is understood that Centrex systems --- generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service." The Report, furthermore, provides insight into the intent of Congress to exempt the competitive areas of PBX and Centrex service from excise taxation by recognizing "---problems under present law because of competition from untaxed private equipment performing similar services."

The provisions of the Code under which the tax is collected are quite explicit in stating that "local telephone service" is subject to tax while "private communication service" is exempt. Under the definitions of the exempt "private communication service" are the explanatory words, "the communication service furnished to a subscriber which entitles the subscriber --- to the use of an intercommunication system for the subscriber's stations, ---". This portion of the code concludes by stating, "except that such term does not include any communication service unless a separate charge is made for such service."

Portions of the Report of the Committee on Ways and Means and of the Tax Code are included as Attachments to these Notes for your information and so that the above quotations can be read in their proper context.

From the above, it can be seen why PBX systems have only been taxed on the central office trunks associated with them while Centrex service has been fully taxed on the unrestricted station rate. Accordingly, the restructuring of Centrex rates must be based on identifying the central office trunk component (the equivalent of the taxed portion of PBX) of the overall Centrex station rate and expressing it in the tariffs as a "separate charge."

E1379
Exhibit 200

Tax Law Interpretation

The Centrex restructuring being recommended here goes beyond the familiar bounds of regulatory law and also involves the specialized area of tax law. The guidance of the local legal staff should be obtained early in the project.

Mr. V. E. Ferrall, General Tax Attorney at "195", and his staff are thoroughly familiar with the Federal statutes regarding the application of Federal Excise Tax on communications service. They are available to assist the local legal staff in resolving any questions regarding a contemplated approach and its appropriateness under the tax laws.

Considerations Bearing on the Restructuring of Centrex Rates

First, the restructuring of Centrex rates should not result in any net change in billing to a customer for the services rendered by the telephone company. The only change discernible by the customer will be a reduction in FET liability.

Second, it is strongly urged that the restructuring be approached as an independent action before the local regulatory body and not be included in a general rate case or other contemplated commission action. By keeping this action separate, it is felt that the issues can be readily identified and favorable commission acceptance hastened, thus avoiding unnecessary delay in obtaining this benefit for our customers.

Third, it is important that the restructured Centrex rates meet any appropriate test of reasonableness. The Internal Revenue Service (IRS) is not concerned with the rate levels *per se*, but they are concerned with rate levels which give the appearance of having been structured to avoid (partially, or in whole) the payment of FET on services which should be taxed by law. The most common test for reasonableness will probably be to compare Centrex customers to PBX customers. It is suggested that such a check be made when the proposed, restructured Centrex rates have been developed.

Fourth, the basis for restructuring Centrex rates should be the relationships used originally (together with any subsequent adjustments) for determining the value of the central office trunk component charge for inclusion in the Centrex station rates, rather than current averages based on actual equipment arrangements. The use of current averages is felt to be improper since it would, (A) impute a trunk component charge to the station rate which is not actually reflected in the filed tariff rate thus skewing the component of the station rate representing the competitive portion of the service, and (B) using current averages introduces a dynamic variable (suggesting the need for continual recomputation) into the relatively static filed tariff rate. The use of current averages are most appropriate when the entire Centrex rate structure is being reviewed for a possible general rate adjustment -- i.e., material prices, maintenance factors, equipment quantities, etc.

Finally, it is important that the detailed billing records of the customer show the taxable and non-taxable portions of the service separately. This will require a tariff change to identify and state separately the services which are taxable and non-taxable so that the bills can be prepared properly.

Restructuring Method

The restructuring methodology used herein is based on the data from the original 1961 Centrex letter and the 1965 Centrex letter reducing the minimum size to 100 stations.

Attachment 3 of Section IV of the April, 1961 Centrex Service Rate Development Considerations binder showed the trunk revenue included per main station. Attachment 1 of the Addendum to the Notes accompanying the February, 1965, General Letter gave similar data down to 100 main stations. Combining the two (and rounding any odd cent amounts to the next higher even five cents) produces the results shown in Figure 1:

	Trunk Increment Per Main Station			
	100 MS	300MS	600MS	1800MS
Centrex Schedule I - Flat Rate	$ 3.40	$ 3.25	$ 2.55	$ 1.35
Centrex Schedule II - Flat Rate	4.60	4.45	3.55	1.85
Centrex Schedule III - Message Rate	.90	.80	.60	.35

FIGURE 1

The 1961 Centrex rate schedule had tapered station rates with different station rates prevailing for:

- the first 50 stations
- the next 250 stations
- the next 600 stations
- all stations over 900

The trunk increments shown in Figure 1 bear a reasonable relationship to the 1961 rate schedule. The 300 main station trunk increment is directly related to the minimum size system offered originally. The 600 main station trunk increment is related to the mid-point of "the next 600 station" step, while the 1800 main station trunk increment represents the mid-point between 900 and 2700 stations. Beyond 2700 stations there is generally little additional trunking efficiency to be gained. Below 2700, however, the mid-points identify average amounts which reflect the decreasing trunking efficiency that results with smaller systems.

E1381
Exhibit 200

The 1965 Centrex rate schedule also had tapered station rates with different station rates prevailing for:

- the first 100 stations
- the next 100 stations
- the next 700 stations
- all stations over 900

Applying the same approach as above to the 1965 schedule results in the trunk increment shown in Figure 1 for 100 main stations being appropriate to use at the minimum point. The next mid-point, however, would be at 200 main stations covering the range from 100 to 300 main stations. Attachment 1 of the Addendum to the 1965 letter gave the incremental trunk values shown in Figure 2 for 200 main stations:

	Trunk Increment Per Main Station
	200MS
Centrex Schedule I - Flat Rate	$ 2.70
Centrex Schedule II - Flat Rate	3.60
Centrex Schedule III - Message Rate	.70

FIGURE 2

The 1965 incremental trunk values were based on current traffic information. However, to use that data, unadjusted, would introduce a compensation not present in the remainder of the schedule. Therefore, in order to meet a test of reasonableness and to avoid appearing to seize upon an opportunity to minimize customer tax liability, a judgment was made to use the value for 300 main stations at the 200 station mid-point in the 1965 Centrex rate schedule. The remainder of the mid-points used are identical to those described above for the 1961 Centrex rate schedule.

Then, using the trunk increments given in Figure 1 the present Centrex rate schedule (shown in Figure 3) can be restructured to produce the proposed Centrex rate schedule (shown in Figure 4).

E1382
Exhibit 200

PRESENT CENTREX RATE SCHEDULE

A. At Primary Location - Unrestricted Main Stations:

		Monthly Charge Per Station				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	*First 100	Next 100	Next 700	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$12.25	$8.00	$7.00	$4.50	$0.25
Schedule II (Flat Rate)	67,000 to 375,000	13.50	9.75	7.75	5.00	0.35
Schedule III (Message Rate)	Large City Metro. Area	9.50	6.25	5.75	4.00	0.50

*Minimum charge at primary location is that for 100 unrestricted Main Stations.

B. At Secondary Location - Unrestricted Main Stations:

		Monthly Charge Per Station				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	#First 50	Next 250	Next 600	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$ 9.50	$ 9.00	$7.00	$4.50	$0.25
Schedule II (Flat Rate)	67,000 to 375,000	10.75	10.25	7.75	5.00	0.35
Schedule III (Message Rate)	Large City Metro. Area	8.00	7.00	5.75	4.00	0.50

#No minimum station requirement at secondary locations.

FIGURE 3

E1383
Exhibit 200

PROPOSED CENTREX RATE SCHEDULE

A. At Primary Location - Unrestricted Main Stations:

		*Monthly Charge Per Station for Exchange Access				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	First 100	Next 100	Next 700	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$3.40	$3.25	$2.55	$1.35	none
Schedule II (Flat Rate)	67,000 to 375,000	4.60	4.45	3.55	1.85	none
Schedule III (Message Rate)	Large City Metro. Area	0.90	0.80	0.60	0.35	none

		#Monthly Charge Per Station for Intercommunication				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	First 100	Next 100	Next 700	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	$8.85	$4.75	$4.45	$3.15	$0.25
Schedule II (Flat Rate)	67,000 375,000	8.90	5.30	4.20	3.15	0.35
Schedule III (Message Rate)	Large City Metro. Area	8.60	5.45	5.15	3.65	0.50

#Minimum charge at primary location is that for 100 unrestricted Main Stations. The total charge per station is the sum of the appropriate Exchange Access and Intercommunication charges.

(continued on Page N7)

E1384
Exhibit 200

(continued from Page N6)

B. At Secondary Location - Unrestricted Main Stations:

		Monthly Charge Per Station for Exchange Access				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	#First 50	Next 250	Next 600	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	\$3.25	\$3.25	\$2.55	\$1.35	none
Schedule II (Flat Rate)	67,000 to 375,000	4.45	4.45	3.55	1.85	none
Schedule III (Message Rate)	Large City Metro. Area	0.80	0.80	0.60	0.35	none

		Monthly Charge Per Station for Intercommunication				
		Centrex-CU				Centrex-CO
	Telephones In L.S.A.	#First 50	Next 250	Next 600	Over 900	Added Charge
Schedule I (Flat Rate)	Under 67,000	\$6.25	\$5.75	\$4.45	\$3.15	\$0.25
Schedule II (Flat Rate)	67,000 to 375,000	6.30	5.80	4.20	3.15	0.35
Schedule III (Message Rate)	Large City Metro. Area	7.20	6.20	5.15	3.65	0.50

‡No minimum station requirement at secondary locations. The total charge per station is the sum of the appropriate Exchange Access and Intercommunication charges.

FIGURE 4

Figure 4 contains the restructured Centrex rate schedule. In reversing the pricing process, the resultant schedule contains some roughness since it doesn't duplicate the original rounding and smoothing used to produce a reasonable rate schedule from the cost support. However, the proposed schedule, as constituted in Figure 4, produces a fair and reasonable identification of the exchange access component contained in the present rate structure.

Also, in Figure 4, it should be noted that the trunk increment for "next 100" at primary locations has been used for both "first 50" and "next 250" at secondary locations. This was done since the primary location is limited to 100 main stations and the secondary location generally shares the trunk group between the primary location and the serving central office. Therefore, the secondary location's traffic to the exchange network is added to that of the first 100 stations and the combined traffic enjoys the trunking efficiencies of the larger trunk group.

Application of Federal Excise Tax (FET)

When the restructured Centrex rate schedule becomes effective, FET will be applied only to the Centrex Exchange Access Charge (CEAC).

Test for Reasonableness

A test for the reasonableness of the Centrex rate schedule shown in Figure 4 is shown in Figure 5 below.

Centrex Exchange Access Charge (CEAC) vs. Equivalent PBX Trunk Charges

(based on original Centrex study data and introduction of 100 station minimum)

		Study System Sizes			
	Schedule I	100MS	300MS	600MS	1800MS
1.	Trunks (from study)	19	56	87	140
2.	Trunk Revenue ($17.35 avg. trk. rate from study)	$ 329.65	$ 971.60	$ 1509.45	$ 2429.00
3.	CEAC Revenue (from Fig. 4)	340.00	920.00	1685.00	3665.00
4.	Difference (3.-2.)	$+ 10.35	$- 51.60	$+ 175.55	$+1236.00
5.	FET difference (4.x10%)	+ 1.04	- 5.16	+ 17.56	+ 123.60
6.	FET diff. per station	+ .0104	- .0172	+ .0293	+ .0687
7.	Similarly, the FET diff. per station was determined for:				
	Schedule II	+ .0050	- .0271	+ .0402	+ .0946
	Schedule III	+ .0083	- .0036	+ .0060	+ .0168

FIGURE 5

It seems reasonable to conclude from the analysis shown in Figure 5 that the Centrex Exchange Access Charge (CEAC) provides FET at a rate which is equivalent to that produced by PBX central office trunks. It slumps below the objective at 300 main stations as a result of that station size location with respect to the average trunk increment used between 200 and 900 stations. However, there is every indication that the schedule, in aggregate, meets the test of reasonableness.

Some Companies will find that because their rate schedule "breaks" at different station sizes with respect to their study data that there are no negative quantities in their test computation.

General Rate Increases

Many companies have revised Centrex rates as a result of a general rate case. Such rate activity should be reflected when the Centrex rates are restructured. The best approach is to assign portions of the total increase to the Centrex Exchange Access Charge (CEAC) and the Centrex Intercommunication Charge (CIC) on the bases used to support the rate increase.

Other Centrex Charges

There is no need to restructure the attendant position, bridged extension or fully restricted station rates since the component of central office trunk identified for inclusion in Centrex prices was all packaged with the Centrex main station rate. Partially restricted main stations will continue to carry the same charge as an unrestricted main station, and therefore, the restructured rates shown in Figure 4 should be used for them.

The Centrex-CO station additive is based on value considerations surrounding the furnishing of floor space and power by Centrex customers and is exempt from FET.

Dormitory Stations

Dormitory stations were priced in relation to the residential service rates prevailing in the community in which the dormitory was located. Additionally, the aspect of a non-coincident trunk group busy hour for the administrative and dormitory stations was reflected. Therefore, when the customer for dormitory stations is not exempt from the provisions of the Federal Excise Tax Law, it seems appropriate to apply FET to the full dormitory station rate. Dormitory stations should not be restructured.

E1387
Exhibit 200

Uniform Intercommunication Charges

In discussing the proposed restructuring (shown in Figure 4) with some companies, concern has been expressed regarding the lack of uniformity statewide in the Centrex Intercommunication Charge (CIC) at any given line size. This concern stems from the existing PBX rate schedules which are uniform (for the equivalent of CIC service) throughout the state.

If uniformity is important, then it is suggested that the restructuring step be taken first and that subsequently a plan be devised to achieve uniformity through adjustments accompanying any planned general rate case activity.

On the other hand, there are many factors which are present today (area labor rates, travel time differences, mix of serving vehicles by area, etc.) which cause the propriety of a uniform rate to be questioned. Concrete evidence supporting either approach is not readily available today. Until it is, it seems that rationalizations can be developed to support either position. Those companies which have had recent rate case increases may find it easier to approach (or achieve) uniformity of the CIC (when it is felt desirable) by resorting to a little smoothing and rounding. However, it is important, whenever such methods are used, that the resultant rate schedule can fully meet the test demonstrated in Figure 5, without producing negative values.

Customer Negotiations

In negotiating with a customer for Centrex, it does not seem necessary (or desirable) for the salesman to quote a two component station rate during executive presentations. Instead, the aggregate of the CEAC and CIC should be used.

However, in discussing Centrex with the customer's telecommunications manager or designated representative, the two component rate schedule and the accompanying FET liability should be thoroughly explained. This should minimize misunderstanding of the first Service and Equipment billing detail furnished after a Centrex cutover.

The administrative aspects of field negotiations can be simplified if the salesman is furnished with a precomputed table which shows the FET applicable at any given system size.

In all cases, however, the salesman will be required to order the CEAC and CIC components of service separately so that the supporting billing records, which are the bases upon which the Federal Excise Tax is applied, are correct.

E1388
Exhibit 200

Universal Service Order Code

Centrex rate schedules are not uniform between companies since the station size at which the rate steps occur varies as do the number of rate steps. As a consequence, USOC's have not been furnished in General Letters on Centrex. Therefore, it is suggested that the present USOC's being used for Centrex within the company be applied to the CEAC portion of the restructured Centrex rate and that new USOC's be obtained for the CIC portion.

Tariff Regulation

The intent of this restructuring plan is to provide an equitable FET liability to our Centrex customers, both those we presently serve and those we will serve in the future. Therefore, to forestall requests by customers for only part of the total service, it is suggested that a regulation be added to the Centrex portion of the tariff along the following lines:

Regulation

> Centrex is offered only as a complete service. The exchange access or intercommunication portions of the Centrex station charges are not offered separately.

E1389
Exhibit 200

Attachment 1
Page 1 of 3

89th Congress, 1st Session - - - - - - House Report No. 433

EXCISE TAX REDUCTION ACT OF 1965

REPORT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

TO ACCOMPANY

H.R. 8371

A BILL TO REDUCE EXCISE TAXES, AND FOR OTHER PURPOSES

MAY 28, 1965.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
35-008 WASHINGTON : 1965

Attachment 1

Page 2 of 3

E1390

Exhibit 200

1 percent for amounts paid pursuant to bills first rendered on or after January 1, 1968, and before January 1, 1969.

The tax is not to apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

In applying the new tax rates referred to above, in the case of communication services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill is to be treated as having been first rendered during such year. The existing 10 percent tax rate will continue to apply in the case of bills first rendered before January 1, 1966 (whether the services are rendered before, on, or after such date), and in the case of communication services rendered before November 1, 1965, even though the bill is first rendered on or after January 1, 1966.

The definitions of local telephone service (previously general telephone service), toll telephone service, and teletypewriter exchange service have been updated and modified to make it clear that it is the service as such which is being taxed and not merely the equipment being supplied. Thus, in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of telephonic quality communication which is taxed together with facilities or services provided with this service. Toll telephone service is defined as being a telephonic quality communication for which a toll charge is made which varies in amount with the distance and the lapsed transmission time of individual communications, but only if the charge is paid within the United States. Also included in this definition of toll telephone service is WATS (wide area telephone service). This is a long-distance service whereby, for a flat charge, the subscriber is entitled to make unlimited calls within a defined area (sometimes limited as to the maximum number of hours). A teletype writer exchange service is defined as access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations in the same exchange system.

It is estimated that the reduction of the tax rate from 10 to 3 percent effective January 1, 1966, will result in a revenue loss of $639 million in a full year of operation. The elimination of the remaining 3 percentage points of tax over the next 3 years, it is estimated, will result in an additional revenue loss of $274 million when fully effective.

(*b*) *Private communications services.*—Under present law, a private communications system such as a private line or a private intercommunication system set up for a single subscriber (such as a PBX system or Centrex service) is taxed as a part of general telephone service if the telephones in this system have access to the local exchange system.

This has presented problems under present law because of competition from untaxed private equipment performing similar services. The telephone companies presently are losing intrapremise business (and interpremise business within local areas) to those providing telephone and microwave equipment which can be purchased and operated by the users themselves. Installation of equipment in this manner is accompanied by a reduction in the service from the local telephone company. Businesses installing their own internal com-

E1391
Exhibit 200

munications systems in this manner avoid the tax on the telephone company's charge for both equipment and services. With the ever-increasing number of varied services which modern science makes it possible for telephone companies to provide, the tax on private communication systems represents a severe competitive handicap to the expanded use of these new and varied services.

For the reasons indicated above, your committee's bill provides an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems—where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber—generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service.

The definition of a private communication service refers to a communication service where a subscriber is entitled to the exclusive or priority use of a communication channel or groups of channels. This is sometimes referred to as a private line. The reference to an intercommunications system is intended to refer to a private exchange system for a single subscriber and thus to cover private PBX systems (whether or not they have in-dialing). Included in the definition of a private communication system is channel mileage for communication between a telephone station located outside a local exchange system and a central office in such local telephone system, if a separate charge is made for this service.

This exemption is to take effect as of January 1, 1966.

It is estimated that repeal of the tax on private communication services will reduce revenues by $130 million in a full year of operation.

(c) *Telegraph service and wire and equipment service.*—Telegraph service presently is subject to a tax of 10 percent of the amount paid while a tax of 8 percent is imposed on wire and equipment service. Wire and equipment service includes stock quotation and information services, burglar alarm and fire alarm service, and similar services.

In the case of telegraph service, the present tax presents an added handicap to an industry which has been experiencing a decline in business for a long period of time. The tax on wire and equipment service not only taxes the communication feature of the service, but other services provided as well. Moreover, in many cases, the services provided are in competition with similar services provided on a tax-free basis.

Because of the factors indicated above, your committee's bill repeals the tax on telegraph service and wire and equipment service effective January 1, 1966.

The repeal of the tax on telegraph service is expected to result in a revenue loss of $17 million a year when fully effective, and the repeal of the wire and equipment service tax is expected to result in an annual revenue loss of $15 million a year.

Attachment 2
Page 1 of 1

E1392
Exhibit 200

[Sec. 4252]

SEC. 4252. DEFINITIONS.

[Sec. 4252(a)]

(a) Local Telephone Service.—For purposes of this subchapter, the term "local telephone service" means—

(1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and

(2) any facility or service provided in connection with a service described in paragraph (1).

The term "local telephone service" does not include any service which is a "toll telephone service" or a "private communication service" as defined in subsections (b) and (d).

Source as originally enacted in 1954 Code: Sec. 3165(a), 1939 Code, substantially unchanged.

[Sec. 4252(b)]

(b) Toll Telephone Service.—For purposes of this subchapter, the term "toll telephone service" means—

(1) a telephonic quality communication for which (A) there is a toll charge which varies in amount with the distance and elapsed transmission time of each individual communication and (B) the charge is paid within the United States, and

(2) a service which entitles the subscriber, upon payment of a periodic charge (determined as a flat amount or upon the basis of total elapsed transmission time), to the privilege of an unlimited number of telephonic communications to or from all or a substantial portion of the persons having telephone or radio telephone stations in a specified area which is outside the local telephone system area in which the station provided with this service is located.

Source as originally enacted in 1954 Code: Sec. 3465(a), 1939 Code, substantially unchanged.

[Sec. 4252(c)]

(c) Teletypewriter Exchange Service.—For purposes of this subchapter, the term "teletypewriter exchange service" means the access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part, and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations constituting a part of the same teletypewriter exchange system, to which the subscriber is entitled upon payment of a charge or charges (whether such charge or charges are determined as a flat periodic amount, on the basis of distance and elapsed transmission time, or in some other manner). The term "teletypewriter exchange service" does not include any service which is "local telephone service" as defined in subsection (a).

Source as originally enacted in 1954 Code: Sec. 3465(a), 1939 Code, substantially unchanged.

[Sec. 4252(d)]

(d) Private Communication Service.—For purposes of this subchapter, the term "private communication service" means—

(1) the communication service furnished to a subscriber which entitles the subscriber—

(A) to exclusive or priority use of any communication channel or groups of channels, or

(B) to the use of an intercommunication system for the subscriber's stations,

regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),

(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and

(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,

except that such term does not include any communication service unless a separate charge is made for such service.

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E1393
EXHIBIT 201
January 19, 1972 letter from P.D. Loser
to General Commercial Managers

AT&T
American Telephone & Telegraph Company
195 Broadway
New York, N.Y. 10007
Phone (212) 393-9600

subject: Restructuring Centrex Tariffs for Federal Excise Tax and Network Access Pricing Purposes

date: January 19, 1972

file no. gi: 12-01-080
other:

to: General Commercial Managers

from: Assistant Vice President - Commercial

synopsis: Recommends procedures for implementing restructured Centrex tariffs.

* * *

The attached material outlines service order and billing procedures to be followed when Centrex tariffs are restructured for Federal Excise Tax (FET) purposes and also for NAP Phase 1. The material includes:

- Principles to be followed in establishing customer records to reflect the restructured Centrex tariffs.
- Illustrative service order entries.
- A representative list of USOC codes identifying the Centrex station codes that are affected.
- Information for the local Sales Office personnel to discuss with customers who will benefit from the FET change.

The Business Market Service people are also writing to their coordinates. Should your people have any questions, they may call Gloria Gaskin, Area Code 212 393-2077.

Yours very truly,

P. D. Loser

Assistant Vice President

Attachment

PROT

USA 38a - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
201

FPI-MI—9-24-75-80M-4417

E1394
Exhibit 201

Memorandum Accompanying
Commercial Letter Dated
January 19, 1972

RESTRUCTURING OF CENTREX TARIFFS

GENERAL

In a letter dated September 27, 1971 (GL 71-09-158), Mr. R. T. Dugan, Assistant Vice President - Market and Service Plans, recommended restructuring Centrex rates. The purpose is to achieve a more equitable application of the Federal Excise Tax (FET) which will be consistent with the present application of FET to PBX service (i.e., only PBX Central Office trunks are subject to FET).

> The restructuring of Centrex rates will be based on identifying the Central Office trunk component (the equivalent of the taxed portion of PBX service) of the overall Centrex station rate. This component will then be expressed in the tariffs as a "separate charge".
>
> Overall Centrex rates will not change, however. The only effect on the customer's bill will be a reduction in FET.

Mr. Loser's letter of December 27, 1971, covered procedures for introducing the Network Access Pricing (NAP) concept. The basic NAP principles for separating exchange access lines and terminal equipment also apply to Centrex service.

Since Centrex customers will benefit from the change in the application of the FET it is recommended that the restructuring of the tariff for FET purposes be done as soon as possible. However, there may be some variations by Companies as to the way in which the tariff changes may be made. The following procedures, therefore, cover the three possible situations which may occur:

- The separation for FET purposes could precede the introduction of the NAP concept. Done
- The separation for the NAP concept could precede the separation for FET purposes.
- Both separations could be done concurrently.

RESTRUCTURED RATES FOR FET PURPOSES - SERVICE ORDER CONSIDERATIONS

To accomplish the restructuring for tax purposes, the rates for unrestricted Centrex main stations should be separated into two charges as follows:

- Centrex Exchange Access Charge (CEAC)
- Centrex Intercommunication Charge (CIC)

With this tariff separation, the Exchange Access Charge (CEAC) will be subject to the FET.

The Intercommunication charge (CIC) will not be subject to this tax.

PROTECTED

E1395
Exhibit 201

Charges for the following Centrex services will not be restructured:

- Attendant position
- Fully restricted stations
- Bridged extension stations

There is no need to restructure these charges since the components of central office trunks identified for inclusion in Centrex prices were all packaged with the Centrex main station rates.

Dormitory Centrex service involves special consideration. The restructuring of charges applies to all universities and colleges regardless of whether or not they are tax exempt. The restructuring applies only to administrative stations and not to dormitory stations.

> Dormitory stations are excluded since they are priced in relation to the residential service rates prevailing in the community in which the dormitory is located.
>
> Residential service rates are not exempt from the FET.

USOC codes presently used to identify unrestricted Centrex main stations which will be affected by the restructuring should continue to be used. They will represent the CEAC portion of the restructured rate. New USOC codes have been assigned to the CIC portion. These are:

USOC	Description
NRX	Centrex Intercommunication Charge Including Station Component - Not Taxable.
NTX	Centrex Intercommunication Charge Off Premise Including Station Component - Not Taxable.

The following examples illustrate the restructured Centrex main station rates for FET purposes only. The asterisks indicate that portion of the rate to which the FET no longer applies.

Example 1 - Two non-key Centrex stations, one with an associated extension, to be installed at a primary location.

Present	
RXRBC	$12.25
RX7BC	4.50
RXRBC	12.25
Total	$29.00

New	
RXRBC	$ 3.40
NRX	8.85*
RX7BC	4.50
RXRBC	3.40
NRX	8.85*
Total	$29.00

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E1396
Exhibit 201

Example 2 - A primary off premise non-key Centrex station.

Present	
RX3BW	$ 9.50
Total	$ 9.50

New	
RX3BW	$ 3.25
NTX	6.25*
Total	$ 9.50

Example 3 - An administrative station and a dormitory station to be installed at primary locations.

Present	
RXRBC	$12.25
PS7BW	6.50
Total	$18.75

New	
RXRBC	$ 3.40
NRX	8.85*
PS7BW	6.50
Total	$18.75

RESTRUCTURED RATES FOR NAP PURPOSES - SERVICE ORDER CONSIDERATIONS

In the case of basic Centrex service, under the NAP concept the station termination charge applies to all Centrex access lines (main stations) at both the primary and secondary locations.

- Existing USOC codes for stations at primary locations and for stations at secondary locations will continue to be used and will identify Centrex access lines.
- The USOC code STN will be used to identify the station termination charge and will be rated at the monthly charge for business extensions. The station termination charge contemplates provision of a main telephone.
- The suffixes used to designate color and type of instrument will continue to be associated with the code for the access line, e.g., RXRBW.

The following example illustrates the application of the station termination charge when the rates are being restructured for NAP purposes only (i.e., there is no effect on the application of the FET).

Example 1 - Two non-key Centrex stations, to be installed at a primary and secondary location.

Present	
RXRBC	$12.25
RX3BW	9.50
Total	$22.50

New	
RXRBC	$10.25
STN	2.00
RX3BW	8.25
STN	2.00
Total	$22.50

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E1397
Exhibit 201

NOTE: The STN applies to both the primary and secondary stations. The rate applied to the STN is equivalent to the rate for a regular business extension.

Example 2 - Two non-key Centrex stations, one with an associated extension, to be installed at a primary location.

Present	
RXRBC	$12.25
RX7BC	9.50
RXRBC	12.25
Total	$34.00

New	
RXRBC	$10.25
STN	2.00
RX7BC	9.50
RXRBC	10.25
STN	2.00
Total	$34.00

NOTE: The STN applies only to the primary (main) stations and not the extension (RX7). All extensions will continue to be rated as in the past.

In the case of dormitory Centrex service the same basic principles apply, i.e., the station termination charge applies to dormitory stations at both primary and secondary locations.

- Since rates for dormitory stations are priced in relation to the residence service rates prevailing in the community in which the dormitory is located, the station termination charge should be the same as the residence extension rate.

- A new USOC code STU will be used to identify the station termination charge when associated with dormitory stations.

    This code is necessary in order to apply the residence extension rate to the station. Otherwise, the class of service code used for dormitory Centrex, which designates business service, would result in applying a business extension rate.

    This is the only exception to the use of the USOC code STN for the station termination charge.

The station termination charge for primary and secondary administrative stations will take the business extension rate.

The code STN should be used.

The following example illustrates these principles:

Example - An administrative station and a dormitory station to be installed at primary locations.

Present	
RXRBC	$12.25
PS7BW	6.50
Total	$18.75

New	
RXRBC	$10.25
STN	2.00
PS7BW	5.50
STU	1.00
Total	$18.75

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E1398
Exhibit 201

RESTRUCTURING FOR FET AND NAP CONCURRENTLY - SERVICE ORDER CONSIDERATIONS

When Centrex tariffs are restructured to reflect the FET separation and the NAP concept concurrently, the following should be observed:

- The station termination charge is associated with the Centrex Intercommunication Charge (CIC).
- The USOC code, STN, should follow the code representing the CIC portion on the service order (NRX or NTX).

The following examples illustrate the restructured Centrex main station rates for both FET and NAP purposes. The asterisk indicates that portion of the rate to which the FET no longer applies.

Example 1 - Two non-key Centrex stations, one with an associated extension, to be installed at a primary location.

Present		**New**	
RXRBC	$12.25	RXRBC	$ 3.40
RX7BC	9.50	NRX	6.85*
RXRBC	12.25	STN	2.00*
		RX7BC	9.50
		RXRBC	3.40
		NRX	6.85*
		STN	2.00*
Total	$34.00	Total	$34.00

Example 2 - A non-key Centrex station and an extension to be installed at a secondary location.

Present		**New**	
RX3BW	$ 9.50	RX3BW	$ 3.25
RVYWC	4.50	NTX	4.25*
		STN	2.00*
		RVYWC	4.50
Total	$14.00	Total	$14.00

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E1399
Exhibit 201

Example 3 - An administrative station and a dormitory station to be installed at primary locations.

Present		New	
RXRBC	$12.25	RXRBC	$ 3.40
PS7BW	6.50	NRX	6.85*
		STN	2.00*
		PS7BW	5.50
		STU	1.00
Total	$18.75	Total	$18.75

Attached are exhibits which illustrate S & E entries for the above examples. (Exhibits 1, 2, 3).

CONVERTING RECORDS TO REFLECT THE RESTRUCTURED RATES

Effective with the tariff changes the appropriate USOC codes to identify the Centrex Intercommunicating Charge and the station termination charge should be shown on all service orders involving Centrex stations that qualify for the restructured rates.

Service Representatives and/or Translators, as appropriate, will be responsible for entering the proper codes on order memoranda as orders are received from customers.

Service Order Review Clerks and/or Typists will review the order detail to ensure the codes appear on all service orders for both new and existing customers.

This will include those orders in process but completed on or after the effective date of the tariffs.

In those CR offices where Accounting can furnish updated records to the Business Office on a "flash-cut" basis, new records should be provided.

This will standardize the records and minimize possible service order errors and confusion among employees.

In those offices where updated records cannot be furnished by Accounting, the new code should be used as order activity occurs.

Records not affected by service order activity should be changed on a scheduled basis as work volumes permit.

Time spent on this activity should be charged to Special Work, Category II - Rate Change Work.

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E1400
Exhibit 201

IDENTIFYING CENTREX STATIONS AFFECTED BY TARIFF RESTRUCTURING FOR FET AND NAP PURPOSES

Each company will be responsible for identifying the stations with the appropriate USOC codes which are affected by the station termination charge. To assist in this identification, an illustrative list of affected USOC codes has been compiled from the A.T.& T. Co. USOC manual. (Exhibit 4)

- Each company should determine the codes which represent services offered in their area and review their revised General Exchange Tariffs to ensure that the separation for FET and NAP purposes apply to such stations.

- This determination should be made on an interdepartmental basis to ensure that the revised tariffs, USOC entries on service orders, and records separated by Accounting agree.

CUSTOMER NEGOTIATIONS - FET TARIFF RESTRUCTURING

The local Sales Office will be responsible for notifying Centrex customers of the reduction in the FET prior to the effective date of the tariff change. The Marketing Sales Representative handling the account should explain the following:

- The effective date of the reduction, including the possibility of a credit if the customer's billing date differs from the effective date.

- The portion of the Centrex service that is affected by the tariff change.

- The approximate amount of reduction in the monthly bill.

There may be occasions where customers may question why Centrex was not restructured earlier to reflect the reduction in the FET. A suggested response would include the following points:

- The Bell System advocates the complete removal of excise taxes from communication services.

- Twice, since the introduction of Centrex, the Congress has scheduled the elimination of excise tax -- and at the last moment extended it again.

- Each time, we could not prudently justify the added expense of revising the tariffs, changing internal administrative procedures and retraining people in view of the indicated short-term situations.

- Recently, the Congress established a third schedule for elimination of excise tax on our services, with final termination occurring on January 1, 1982.

- In view of the significantly longer time period, we are moving to obtain all available relief now and feel that the cost of doing so is justified.

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E1401
Exhibit 201

Although this action should minimize misunderstandings on the part of customers following the issuance of the first bills reflecting the FET adjustment, Business Office Contact personnel should be prepared to answer customer billing inquiries relating to the tax reduction.

CUSTOMER NEGOTIATIONS - NAP TARIFF RESTRUCTURING

The introduction of the NAP concept will affect the records of all departments. However, there will be no change in negotiating procedures with customers.

> The explanations given to customers regarding service and equipment when negotiating orders or answering questions regarding billed charges should generally remain the same as at present.

Service orders will be issued using the new code, but there will be no change made in the make up of the customer's bill.

- The first line entry on the bill will show the same amount as at present.
- This change in records is an internal function and is the first step in implementing the Network Access Pricing concept.

There is only one instance in which a reference will be made to the station termination charge on customer billing media. An appropriate explanatory phrase will appear on OC & C statements prepared for those customers who receive USOC code detail. For example, when the code STN or STU applies,"Termination Charge" should be shown on the statement.

The appearance of the code description on OC & C statements in these cases may provoke a direct question from customers regarding the meaning of the code. Representatives should be prepared to give an adequate explanation. For example:

> "The phrase identifies that portion of the basic monthly rate which represents the charge for each main telephone (or its equivalent)."
>
> "There is no change in the amount of your billing, it is merely an identifying code for our internal records."

When the customer requests further information, a typical reply would be:

> "The Telephone Company is in the process of internally separating access line facilities from terminal equipment. Your main telephone (or equivalent) qualifies as terminal equipment and is identified by the STN code. Such identification, however, will cause no change in the amount of your monthly billing."

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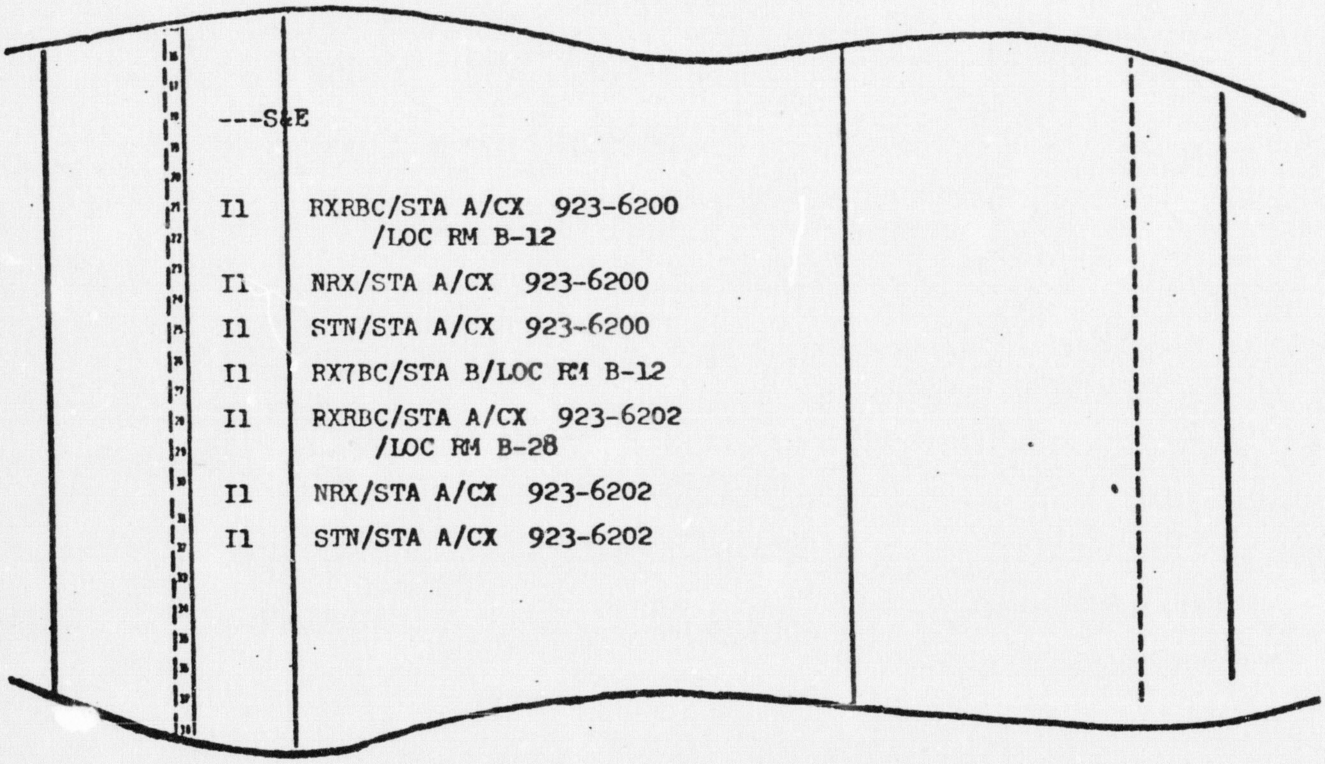
Exhibit 1

E1402
Exhibit 201

RESTRUCTURED CENTREX STATION TARIFF - REFLECTING FET AND NAP SEPARATIONS

INSTALL TWO NON-KEY CENTREX STATIONS - ONE WITH AN ASSOCIATED EXTENSION - AT A PRIMARY LOCATION



```
---S&E

I1    RXRBC/STA A/CX  923-6200
         /LOC RM B-12
I1    NRX/STA A/CX  923-6200
I1    STN/STA A/CX  923-6200
I1    RX7BC/STA B/LOC RM B-12
I1    RXRBC/STA A/CX  923-6202
         /LOC RM B-28
I1    NRX/STA A/CX  923-6202
I1    STN/STA A/CX  923-6202
```

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Service Order Considerations

1. The Centrex Intercommunication Charge and the station termination charge are separated from the rate for each Centrex primary station, and are indicated by the USOC codes NRX and STN.

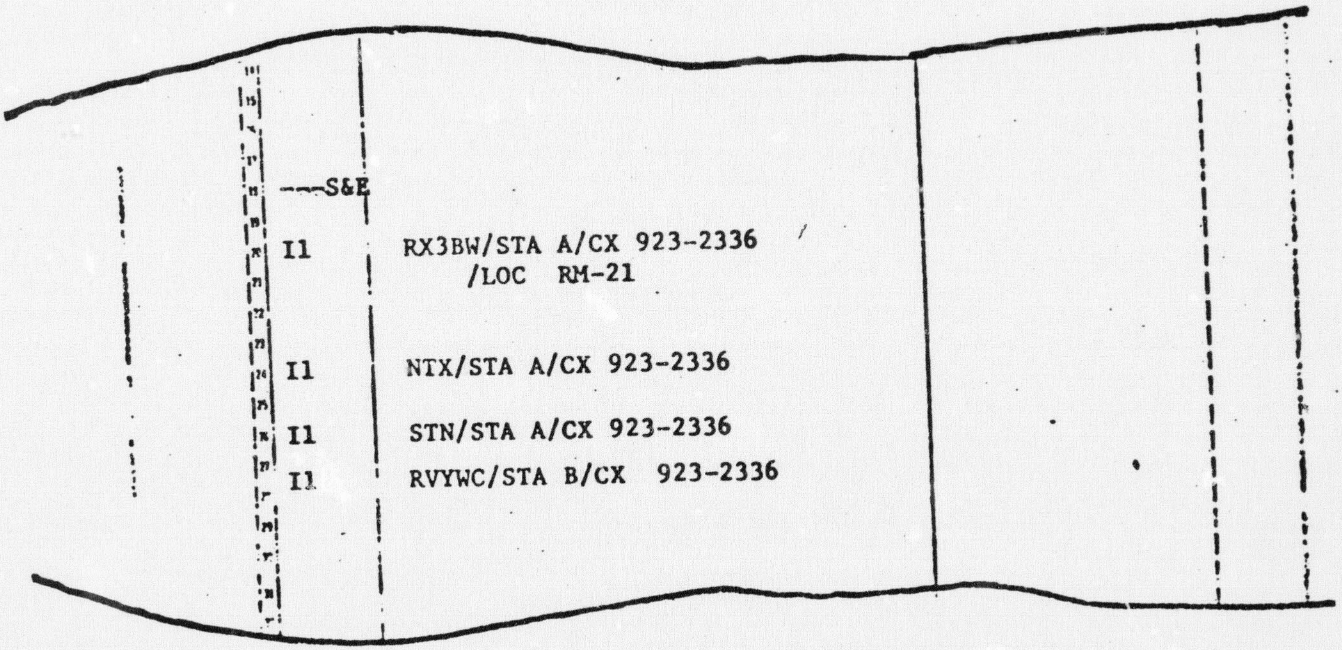
2. These separations do not apply to Centrex extension stations (RX7).

Exhibit 2

E1403
Exhibit 201

RESTRUCTURED CENTREX STATION TARIFF-REFLECTING FET AND NAP SEPARATIONS

ADD A NON-KEY CENTREX MAIN STATION AND EXTENSION AT A SECONDARY LOCATION



---S&E

I1 RX3BW/STA A/CX 923-2336
/LOC RM-21

I1 NTX/STA A/CX 923-2336

I1 STN/STA A/CX 923-2336

I1 RVYWC/STA B/CX 923-2336

Service Order Considerations

1. The Centrex Intercommunication Charge and the station termination charge are separated from the rate for the Centrex main stations at a secondary location and are indicated by the codes NTX and STN.

2. These separations do not apply to Centrex off-premise extension stations. (RVY).

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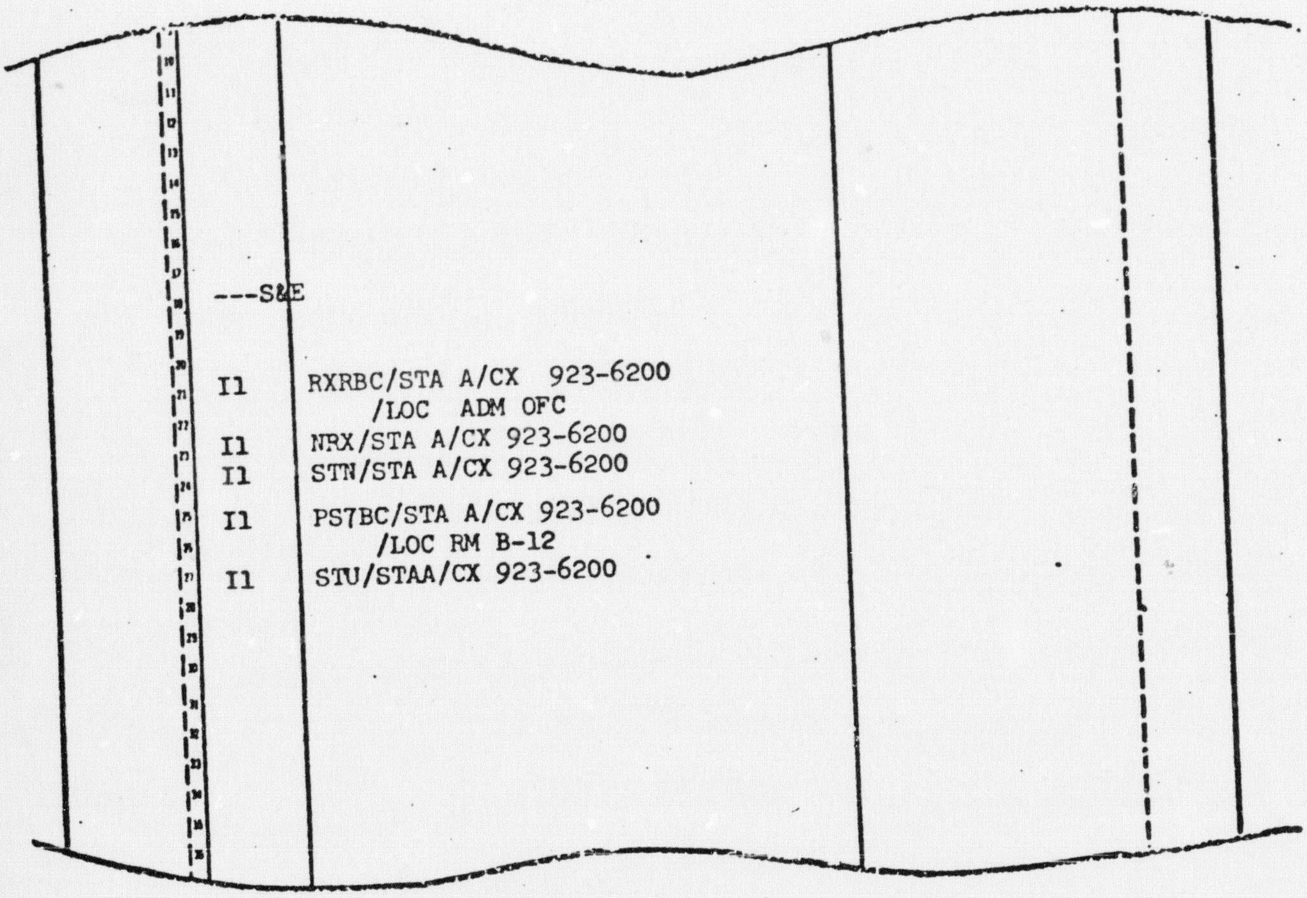
Exhibit 3

E1404
Exhibit 201

RESTRUCTURED CENTREX STATION TARIFFS - REFLECTING FET AND NAP SEPARATIONS

INSTALL AN ADMINISTRATIVE STATION AND A DORMITORY STATION AT A PRIMARY LOCATION



```
---S&E

I1    RXRBC/STA A/CX  923-6200
          /LOC  ADM OFC
I1    NRX/STA A/CX 923-6200
I1    STN/STA A/CX 923-6200
I1    PS7BC/STA A/CX 923-6200
          /LOC RM B-12
I1    STU/STAA/CX 923-6200
```

Service Order Considerations

1. The Centrex Intercommunication Charge and the station termination charge are separated from the rate for the administrative station and are indicated by the codes NRX and STN.

2. The station termination charge only is separated from the dormitory station (PS7).

Exhibit 4

E1405
Exhibit 201

ILLUSTRATIVE LIST OF CENTREX STATION CODES

AFFECTED BY THE RESTRUCTURING OF TARIFFS

FOR FEDERAL EXCISE TAX AND NETWORK ACCESS PRICING PURPOSES

Primary Stations - USOC codes NRX and STN apply when restructuring for FET and NAP purposes.

RXR RXU RXV RGR XRJ XR9
RJC RGU RWR 98L 41C RXH
RX2 RUY RUZ XRE XR1 RSZ
PWC PWE PTC PCK

Primary Stations Off-Premises - USOC codes NTX and STN apply when restructuring for FET and NAP purposes.

RX3 RUR RVR RZR 98E RWY
RX4 RYR RSY RUW

Secondary Stations - When restructuring for FET purposes, each Company should determine whether the NRX or NTX code is applicable to the CIC portion in accordance with their own tariff. The code STN applies when restructuring for NAP purposes.

CNO 98P CNF

Dormitory Stations - Primary and Secondary - USOC code STU applies when restructuring for NAP purposes.

PS7 RXW RXZ EDN K1M RU3
PWF RTX RY3 RV3 R21 52H
52G 52L RTX PS9 PPJ K1N
RY6

NOTE: The reference used to develop this list was the A.T.&T. Company USOC. The list includes codes assigned since the last revision of the Manual.

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EXHIBIT 203
January 6, 1972 memorandum from
V.E. Ferrall to R.T. Dugan

PLAINTIFF
EXHIBIT
U.S. DIST. COURT
S.D. OF N.Y.
203

AT&T

January 6, 1972

71/10

MEMORANDUM for Mr. R. T. Dugan, Assistant Vice President
Market and Service Plans - Exchange Services

This refers to the proposed restructuring of Centrex rates, and the questions raised by Mr. Kemp concerning the application of the Federal communications tax.

When this proposal was discussed with Messrs. Kemp and Burkinshaw of your office last summer, the opinion was expressed that if the Centrex rates were restructured as proposed the exchange access charge would be subject to the Federal communications tax and that the intercommunication charge would not. That is still our opinion.

This proposed restructuring of Centrex rates has not been discussed with the Internal Revenue Service. However, we call to your attention that in 1964, when the Excise Tax Reduction Act of 1965 was being drafted, Mr. L. N. Woodworth, Chief of Staff of the Joint Committee on Internal Revenue Taxation, asked two questions concerning Centrex. First, how much tax revenue loss we believe would be involved if the charges for Centrex service could be separated so as to identify the charge for local telephone service which would remain subject to the Federal communications tax, and the charge for private communication service that would be exempt from the Federal communications tax. Second, how long it might be before we would

E1407
Exhibit 203

accomplish the separation of Centrex charges. A copy of our reply, dated December 17, 1964, is attached for purposes of identifying the questions asked; our reply should not be taken as specifying the only acceptable way in which the Centrex charges could be separated.

We also call to your attention the fact that both the House Ways and Means Committee and the Senate Finance Committee, in their reports on the Excise Tax Reduction Act of 1965, made the comment that Centrex systems do not, "as yet", provide for a charge which is separate and distinct from that for local telephone service. Both facts, in our opinion, indicate the consensus that were there a separate tariff charge for the intercommunication part of Centrex service, that charge would not be subject to the Federal communications tax.

If you have any further questions, please let us know.

Victor E. Ferrall

Victor E. Ferrall
General Tax Attorney

Attachment

E1408
EXHIBIT 205A
May 9, 1972 memorandum from C.E. Erickson
to C.J. Halpern

May 9, 1972

Mr. Halpern:

RE: The attached Telephony article

In 1965 we had Systemwide conferences with Legal, Commercial, Marketing, Rates and Tax Accounting people, at which it was pointed out that Centrex tariff precluded our splitting out the so-called "private communication service" element and treating it as non-taxable.

The rate people, pursuant to a top level decision, were adamant against making the required tariff filings; the reason being given that the establishment of Centrex tariffs had been very difficult and it was not desirable to reopen the matter to save the tax.

Our files show a number of examples in the years following where our rate people even objected to any statement that the matter was being considered. We did not even quote the Committee report because of certain wording which indicated a change was contemplated (see underscoring in box).

However, after a number of complaints from the companies that they were suffering competitively because of the tax disadvantage created by our rate structure, work started about mid-1971 on a revised tariff wording. A letter to this effect was released in January, 1972.

Of interest, our files indicate that McDonnell filed a complaint in mid-1971 with the California PUC asking that Pacific be required to make the tariff revision. It may have been this straw which broke the rate people's back.

In this case, the failure to act cannot be ascribed either to us or to our Legal coordinates; we have encouraged our rate people to make the change, have offered one assistance, and did not dawdle or impede them in any way once they decided to move.

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
205A

E1409
EXHIBIT 205B
May 1, 1972 *Telephony* article

How McDonnell Douglas Corp. saved $100,000 a year on Centrex, without costing General of California a dime in lost revenue.

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
205B

Joseph J. Aiken, Managing Editor

A LITTLE-KNOWN development that quietly and routinely took place in California within the past year could save hundreds of thousands of dollars for telephone company Centrex customers in the nation, and not result in any loss in telco revenues.

Discovery of a federal law already on the books meant an estimated tax savings of $100,000 a year for McDonnell Douglas Corp. divisions in Long Beach and Huntington Beach, Calif. Both are served by General Telephone Co. of California.

The savings come from a misplied 10 per cent federal excise tax which lawmakers intended to levy against service, but not against equipment being supplied. Technical language obscured the full intent of Congress, which was to protect the competitive position of telephone companies from "untaxed private equipment performing similar services," by permitting an exemption for Centrex service.

However, the law allows the exemption for private communications (Centrex) service only if a separate charge is made for the service.

How it all started

The California development began in November, 1970 when James J. Foley, an attorney on the staff of McDonnell Douglas, Huntington Beach, Calif., combed historical tax documents in search of ways to produce local tax savings on the company's newly installed Centrex system.

"I was looking into what the impact of the local utility tax would be, and found that communities were using the same application as the excise tax had," he said. His careful review of the federal excise tax law and legislative history led him to language which described Centrex systems, if charged separately, as equally exempt from the tax as a PBX system.

Foley and Earl Evans, the company's communications manager, brought the discovery to the attention of Dave Freundlich, tax counsel at McDonnell Douglas' Santa Monica office.

Calling on General Telephone's staff attorney, Donald Duckett, they pointed out that if the telephone company separated trunk rates from equipment rates on Centrex, the tax would not apply to the equipment.

"At Douglas' suggestion," Duckett said, "after making a study of the effect on our other customers, we changed our tariff to give them a rather substantial tax break."

The McDonnell Douglas people also cited a 1969 IRS ruling (Revised Ruling 69-152), which held that "the billing procedure followed by the telephone company meets the requirement of a separate charge for 'private communication service.' Accordingly, amounts paid for such service are not subject to the tax on local telephone service imposed by section 4251 of the Code." This means that telco records separating taxable local service and non-taxable private communication service meet the separate charge requirement, even if not billed separately to customers.

California General, on July 28, 1971, filed a "Letter of Advice" with the state Public Utilities Commission, to become effective Aug. 10, 1971.

Excerpts from the Senate Committee Report on PL 89-44 (¶ 2250 of Commerce Clearing House Reports)

The definitions of local telephone service (previously general telephone service), toll telephone service, and teletypewriter exchange service have been updated and modified to make it clear that it is the service as such which is being taxed and not merely the equipment being supplied. Thus, in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of telephonic quality communication which is taxed together with facilities or services provided with this service. . . .

(5) *Private communications services* — Under present law, a private communications system such as a private line or a private intercommunication system set up for a single subscriber (such as a PBX system or Centrex service) is taxed as a part of general telephone service if the telephones in the system have access to the local exchange tem.

his has presented problems under presen w because of competition from untaxed private equipment performing similar services. The telephone companies presently are losing intrapremise business (and interpremise business within local areas) to the by the users themselves. Installation of equipment in this manner is accompanied by a reduction in the service from the local telephone company. Businesses installing their own internal communications systems in this manner avoid the tax on the telephone company's charge for both equipment and services. With the ever increasing number of varied services which modern science makes it possible for telephone companies to provide, the tax on private communication systems represents a severe competitive handicap to the expanded use of these new and varied services.

For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems—where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber—generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Und

Exhibit 205B

Telephone and Telegraph Co. on Feb. 1, 1972, and became effective March 2 for Bell's Centrex customers in California.

Both letters accompanied changes in tariff schedules which separated Centrex charges to permit tax advantages comparable to PBX service. The filings made no changes in rates, charges or services, and the PUC determined, therefore, that no official action by the commission was required.

Called "one of the most lucrative best kept secrets around" by PUC staff members, the impact of the Centrex development is regarded as "nationally significant."

Pacific Telephone, however, considers the impact on its 212 Centrex systems in service in California as "no big thing," and as having neither favorable nor unfavorable effect upon its operations.

Norm Johnson, vice president-market service plans, said that considering their "real big customers and large bills," that "when all this goes into the equation, it wouldn't be too dramatic a thing."

McDonnell Douglas Corp., through George Rondebush, the company's general counsel at corporate headquarters in St. Louis, officially reported that "the annual savings will be in the several tens of thousands." He also confirmed that the company has requested a similar tariff filing from Southwestern Bell for its St. Louis Centrex system, and expects that change to be "in effect in St. Louis next month."

Several sources, however, described $100,000 as an "appropriate" estimate of annual savings for McDonnell Douglas in California alone, including about $20,000 in annual local utility tax savings. Most California communities have a five per cent city tax on phone service.

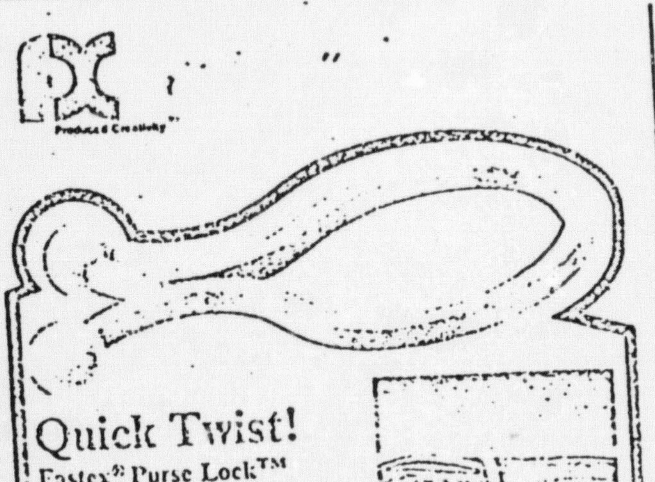
McDonnell Douglas has approximately 10,500 Centrex lines at two California locations. The huge Douglas Aircraft facility at Long Beach has a 7,000 line system, and 3,500 Centrex lines are in service at Huntington Beach. A smaller Centrex system serves the company's St. Louis headquarters. □

IRS Rev. Rul. 69-152

Under the provisions of section 4252 of the Internal Revenue Code of 1954, the tax on local telephone service imposed by section 4251 of the Code does not apply to charges for private communication service if a separate charge is made for such service.

A telephone company provides a full range of private communication services for industrial and commercial subscribers. Monthly billings to subscribers do not show charges for private communication services separately. Such charges are included in totals for "service and equipment" without further billing detail. Under these circumstances, subscribers are unable to determine from the monthly bills the portion representing private communication service. However, the telephone company retains records itemizing in precise detail the monthly rates and charges for the specific items of equipment and service furnished. If specific billing detail is requested by a subscriber, it is furnished by the telephone company.

Held, the billing procedure followed by the telephone company meets the requirements of a separate charge for "private communication service." Accordingly, amounts paid for such service are not subject to the tax on local telephone service imposed by section 4251 of the Code



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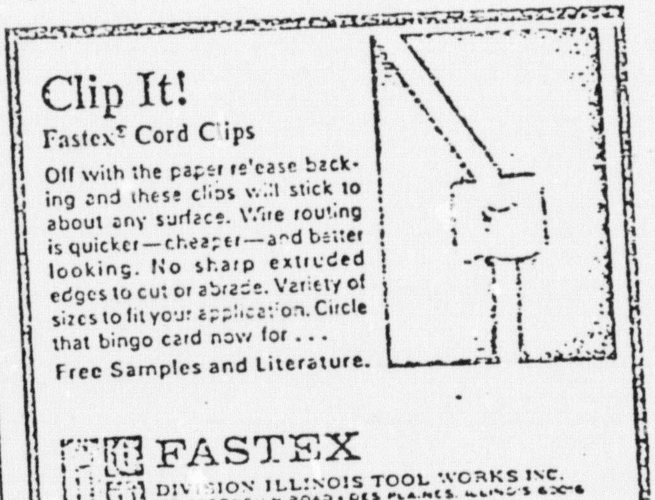

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E1411
EXHIBIT 206
January 18, 1972 memorandum prepared
at C&P of Maryland

/13

January 18, 1972

CIRCULATE-FILE

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
206

CENTREX FEDERAL EXCISE TAX RESTRUCTURE

This restructure must be implemented at the earliest possible opportunity for the following reasons:

- to reduce the tax burden on our Centrex customers
- to improve our competitive posture
- to avoid any further customer criticism of our unresponsiveness
    - tax law changed in 1965 to limit taxation to PBX trunks only
    - Centrex restructure postponed at that time due to possibility of F.E.T. elimination
        - no longer considered probable
    - at least two other Companies have already restructured (Pennsylvania and Illinois)
        - customers such as Weirton Steel, who operate in two jurisdictions, quickly question why is there a difference in taxable base
        - as more Companies file, our position will become untenable

We would suggest that F.E.T. restructure be filed independent of any other matter requiring commission action, as recommended by "195".

- the filing is completely uncontroversial
    - Centrex customers get a tax break
    - no revenue effect
        - Centrex Exchange Access portion plus Intercom portion = existing main station rate
- methodology used in breaking out the exchange portion to be uniform throughout the System
    - we took your original Centrex rate development studies
        - determined the number of stations per trunk in each step
        - divided this into today's appropriate trunk rate
- circumvents, in some cases, the possibility of a delay resulting from suspended tariffs; e.g.,
    - if Network Access Pricing, Phase I, is filed first, there is the possibility that NAP suspension or controversy would preclude or delay F.E.T. restructure.

Our time schedule for this project is as follows:

- in house review of formal recommendation January 21, 1972
- informational copies of the recommendation to Division Level people in Group who are directly involved in this matter by January 24, 1972
- release of the formal recommendation for concurrences and approval by January 28, 1972
- rate authorization secured by February 15, 1972

PROTECTED

RATE PLANNING

E141
EXHIBIT
January 24, 1972 memorandum to
B.R. Jacobs

January 24, 1972

MR. B. R. JACOBS:

This proposed restructuring of Centrex rates will result in reducing the existing Federal Excise Tax (F.E.T.) burden placed on our Centrex customers.

The Federal law specifies that exchange service is subject to F.E.T. and in the case of P.B.X. service, only the trunks are taxable.

- Since the present Centrex rate structure does not specify a charge for the exchange portion of the main station rate, the entire Centrex and all associated supplemental equipment is taxed.

As recommended by "195", it would be prudent to implement this completely uncontroversial change independent of any other matters requiring Commission action and at the earliest opportunity.

Accordingly, if we can secure concurrences and approval of this recommendation by February 15, 1972, we will be in the best position to establish a timetable for the introduction of this restructure.

Approval is recommended.

USA 33c-475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

207

FPI-MI—9-24-75-50M-4417

E1413
EXHIBIT 208
Memoranda produced from files
of Illinois Bell

USA 33a - 475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

208 id

FPI-MI—9-24-75-60M-4417

Illinois Bell

Mr [illegible]

You may want to see Don's note before forwarding.

R
10-25

[illegible] Browne -

We're anxious to get this filed for "one day effective interval" instead of usual 30.

Answers (not good ones) to Don's queries are in AT&T letter, attached.

CRE
R. P. Reuss
10-25

As Joe Johnson suggests, we need to understand the reasons if any, for not doing this a long time ago. Did our careless delay cause additional expense to customers. When could we first have been expected to do it?

DHS
Donald H. Shel

E1414
EXHIBIT 211
April 3, 1972 memorandum with attachment from
B.L. Brayton to W.E. Clemens

RATES: CENTREX Station Rate Allocation for Federal Excise Tax

Minneapolis, Minnesota
April 3, 1972

Mr. W. E. Clemens, ~~Minneapolis, 21st Floor~~
GENERAL ACCOUNTING MANAGER

Attached are the exchange access and non-exchange increments for CENTREX and group use exchange station rates. The Federal Excise Tax should be applied to the exchange access increment only.

Since this is not a regulatory matter, but merely an internal procedure in order to facilitate the proper tax application, we will not be filing these as separate rates with the Public Service Commission. This letter may be considered your authority for such an application; however, if you would like it in any other form, we will be glad to provide it.

B. L. Brayton
B. L. Brayton
Assistant Vice President

Concurred: G. A. Holmes
General Marketing Manager

Date 4-4-72

Concurred: K. J. Wiley
General Staff Manager

Date 4-4-72

cc: Mr. B. L. Carlton, Omaha
Mr. J. S. Weldon, Omaha
Mr. R. A. Ryerson, Omaha

Attach.

USA 33e-475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

211

FPI-MI—9-24-78-50M-4417

PROTECTED

PROTECTED

E1415
Exhibit 211

3-28-72
W. R. S.

EXCHANGE ACCESS AND NON-EXCHANGE INCREMENTS FOR CENTREX AND GROUP USE EXCHANGE STATION RATES - FOR USE WITH FEDERAL EXCISE TAX APPLICATION

CENTREX I Service

Exchanges	Total Rate*	Exchange Access Increment*	Non-Exchange Increment*
Rate Groups I-VIII			
Stations, each			
First 100	$15.45	$ 4.55	$10.90
Next 100	9.60	3.60	6.00
Next 100	7.70	2.65	5.05
Over 300	6.10	2.10	4.00
Rate Groups IX-XIII			
Stations, each			
First 100	16.65	6.00	10.65
Next 100	9.90	4.70	5.20
Next 100	7.70	3.45	4.25
Over 300	6.10	2.75	3.35

CENTREX II Service

Exchanges			
Rate Groups I-VIII			
Stations, each			
First 100	16.35	4.55	11.80
Next 100	11.15	3.60	7.55
Next 700	8.70	2.65	6.05
Over 900	7.15	2.10	5.05
Rate Groups IX-XIII			
First 100	17.90	6.00	11.90
Next 100	11.15	4.70	6.45
Next 700	8.95	3.45	5.50
Over 900	7.35	2.75	4.60

Group Use Exchange Service

Exchanges			
Rate Groups IX-XIII			
Stations, each			
First 10	25.85	20.95	4.90
Next 20	22.75	17.60	5.15
Next 30	19.70	13.65	6.05
Next 40	16.90	6.00	10.90
Next 100	11.40	4.70	6.70
Next 700	9.20	3.45	5.75
Over 900	7.60	2.75	4.85

*Total rates and non-exchange increments shown are for CENTREX CU stations. The exchange access increments shown apply to both CENTREX CU and CO stations.

E1416
EXHIBIT 212
April 7, 1972 letter from R.A. Ryerson
to B.L. Brayton

April 7, 1972

Mr. B. L. Brayton
Assistant Vice President
Northwestern Bell Telephone Company
Minneapolis, Minnesota

Dear Bruce:

We have reviewed the copy of your April 3 letter to Wes Clemens regarding Centrex excise tax application.

I urge you to withdraw that letter immediately since our attorneys have ruled that the tax law prohibits the action you propose. [illegible] rates appears to be the only defensible position under the tax law.

Sincerely,

R A Ryerson

Assistant Vice President

CC: Mr. G. A. Holmes
Mr. R. J. Wiley
Mr. B. L. Carlton
Mr. J. S. Weldon
Mr. E. Sklenicka

WMY/mvd

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
212

USA ... 238-475
(ED. 4-28-71)

PROTECTED

E1417
EXHIBIT 213
April 6, 1972 memorandum from
W.M. Youngman to E. Sklenicka

April 6, 1972

Mr. Sklenicka:

As we discussed today, current excise taxes apply to the exchange lines and all services whose price is co-mingled with the price of those exchange services. For instance, main and extension telephones associated with individual line service are taxable under the present excise tax applications. Likewise, under today's prices so are Centrex rates since there is no separation of the intercom function from the exchange access function in our Centrex rates.

By reformatting our rates, it is possible to restructure the situation where the customers would pay less excise tax than under today's rate format. Accordingly, we developed the attached Illustrative Tariff for Centrex service to help customers minimize these taxes.

In the PBX field today, only the exchange trunk, which is a separately rated item, is subject to the ten (10) percent tax. The attendant position, switching equipment, and PBX stations are tax exempt.

Minnesota is of the opinion that they can eliminate the need for applying excise tax to Centrex attendant positions and the intercom portion of the Centrex station rate by writing a letter to the General Accounting Manager stating that certain proportions of the Centrex rates are for intercommunicating purposes while others are for the exchange access function (see copy of the attached letter).

We have been advised by 195 that such an approach could lead to IRS inspection and audit. Such an audit should be avoided if possible.

The proposed Minnesota approach could also generate requests for refunds of excise tax payments made in the past. There is no defense that I can see for refusing to make such refunds. Such refunds, however, would not come from the Telephone Company, but rather would have to be provided through the IRS.

In addition to the intercom versus exchange access involvement, another, but somewhat remote, possibility is development of procedures to separate the customer equipment portion of our main service from the exchange access line. In essence, the world of network access pricing would be forced upon us.

In order to help evaluate what position our shop should take with Minnesota on this, I would like to know what the tax law says specifically about how excise taxes are to be applied. Does the law require a change in rate format before excise tax exemption can be introduced.

If there are any further questions, please give me a call.

PROTECTED

Bill
W. M. Youngman

Attach.

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
213

E1418
EXHIBIT 214
April 10, 1972 memorandum from
E. Sklenicka to W.M. Youngman

April 10, 1972

Mr. W. M. Youngman
1180 Dodge Bldg.

This is an answer to your inquiry of April 6 concerning the legality of eliminating excise tax on the intercom portion of our Centrex station rate by simply internally making a division of such total rate without a tariff filing setting forth the charges separately for the intercom and network access portions. Confirming my oral advice to you, I am of the opinion that the taxable and non-taxable portions of our total service must be separately set forth in a tariff before we make any allocation of nontaxability on any part of the total service. Actually, although your question does not extend to this point, if we have the charges separated in the tariff, it would not be necessary to make the separation on the billing. We could then charge the tax only to the extent of the taxable service based on the tariff. I am sure we would not want to do this because we want the customer to know from his bill what service is and what is not taxable.

I trust that this answers your inquiry.

Edward Sklenicka

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
214

PROTECTED

E1419
EXHIBIT 215
December 3, 1971 letter from
N.P. Platt to G. Preis

Bernie
Anything in
your Company
re attached?
Happy Holiday
George

Sears, Roebuck and Co.
MIDWESTERN TERRITORY EXECUTIVE OFFICES
7447 SKOKIE BOULEVARD
SKOKIE, ILLINOIS 60076

December 3, 1971

Mr. George Preis
AT&T
225 W. Randolph Street
Chicago, Illinois

Dear George:

As you may know, the Bell Telephone Company in Illinois has begun taking corrective action on the tax inequity which exists on Centrex lines. Unlike a switchboard trunk or business line, a Centrex line has intercom capability; therefore, it is our understanding that the application of the full 10% excise tax is unequitable.

As a result of the reduction of the federal excise tax on our Centrex in Chicago, our rates will be lowered by more than $50,000.00 annually.

I would appreciate your advising the undersigned what is being done in the other areas of the Midwest Territory. Specifically, I would refer you to Columbus and Minneapolis, since we have a functioning Centrex in the Minneapolis area and will, shortly, have one in the Columbus area. We also will have a Centrex in the Toledo area in 1972.

I would appreciate your advising the undersigned of any information that is available so that we can see what effect this change will have on our telephone expense dollars in the Midwest Territory.

Very truly yours,

N. P. Platt

NPP:fe
cc: Messrs. Crawford
Daniels

SA 88a - 475
ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
215
215 id

E1420
EXHIBIT 217
February 15, 1972 letter from
M.T. Gearhart to R.K. Matthews

[illegible]

Bethlehem Steel Corporation

BETHLEHEM, PA. 18016

A. W. CONNAR
VICE PRESIDENT, PURCHASING
F. C. RABOLD
MANAGER OF GENERAL SERVICES

February 15, 1972

File Ref. 23~~1~~

Mr. R. K. Matthews
National Account Manager
American Telephone & Telegraph Co.
Bethlehem, Pennsylvania

Dear Mr. Matthews:

Please investigate and advise this office of the Federal Tax application on Centrex stations at our Johnstown, Lackawanna, and Sparrows Point Plants.

If the interpretation of the tax is similar to that by Bell of Pa. for Centrex stations at Bethlehem, our monthly cost for Centrex at the aforementioned locations should be reduced.

Very truly,

BETHLEHEM STEEL CORPORATION

M. T. Gearhart, Manager
Communications Services

USA 83a-475
(ED. 4-28-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

217 id

Order #
Ext. and/or Tel. #
Date Due
Inst. Chg.
~~Mon. Rate~~ Partially
Remarks Answered in
letter to MTG
3-28-[illegible]

Completely answ. on 9-11-72. RWW

Will revise status as we rec. additional

E1421
EXHIBIT 220A
June 20, 1972 letter from B.F. Campbell
to C.W. Camack

AT&T Long Lines
400 Stanwix Street, 12th Floor
Pittsburgh, Pa. 15222
Phone (412) 644-7130

B. F. Campbell
National Account Manager—Westinghouse

June 20, 1972

Mr. C. W. Camack
New York Telephone Company
140 West Street
New York, New York 10007

Dear Mr. Camack:

A. T. and T. recommended in a letter (79-09-158) dated September 27, 1971, the restructuring of Centrex rates to achieve a more equitable application of Federal Excise Tax. Also, included was a recommended method for "unbundling" the Centrex rates.

The intent of this restructuring plan is to provide an equitable Federal Excise Tax liability to our Centrex customers, both those we presently serve and those we will serve in the future.

We, the National Account Management Team representing Westinghouse, have been requested to provide them with information concerning each operating companies intentions on Centrex rate restructuring.

In order that we may honor this request, will you please forward to our office, information pertaining to contemplated or filed tariffs affecting Federal Excise Tax as applied to Centrex service? We would appreciate receiving this information by July 14, 1972.

If you have any questions, please call C. W. Ferrell on 412-644-7176.

Very truly yours,

B.F. Campbell (KHH)

USA 33a - 475
(ED. 4-28-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

220A

FPI-MI—9-24-75-50M-4417

E1422
EXHIBIT 221
November 12, 1971 letter from
L.H. Calloway to C.H. Garity

FLORIDA RATES CENTREX Rate Restructuring

Mr Randolph
pls prepare reply
H

M. L. Campbell
General Commercial and
Marketing Manager

Mr Slattery

USA 83a-475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
221 id

FPI-MI—9-24-75-50M-4417

Southern Bell
802 Jacobs Building
Jacksonville, Florida 32202
Phone (904) 353-2641

November 12, 1971 RLS:kg

Mr. C. H. Garity
Assistant Vice President
Atlanta, Georgia

Dear Mr. Garity:

A recent American Telephone and Telegraph Company (AT&TCo) letter, gl-71-09-158, dated September 27, 1971 has been brought to our attention. This letter recommends restructuring CENTREX rates to achieve a more equitable application of federal excise taxes, together with a recommended method for unbundling the CENTREX rates.

For some time now we have been very concerned with this subject in Florida. Several large customers have repeatedly questioned us on this matter because of the additional federal excise tax burden applicable in the case of our CENTREX offering.

We are most anxious in Florida to receive your recommendations on this matter. Although we have not had a chance to fully study the recommendations of AT&TCo., we do strongly recommend that some answer along this line be undertaken by Southern Bell.

If we can be of any help, please let us hear from you.

Yours very truly,

LHCalloway
General Commercial and
Marketing Manager

CC: Mr. J. D. Ware
Mr. D. C. Williamson
Mr. J. L. Knight

ROTECTED

E1423
EXHIBIT 224
December 16, 1971 letter from
G.R. Conner to W.T. Todd

NATIONAL COMMUNICATIONS COUNSELORS
11107 S. LONGWOOD DRIVE
CHICAGO, ILLINOIS 60643

December 16, 1971

USA 88a-475
(ED. 4-28-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
224 id

FPI [illegible] 24-78-50M-4417

Mr. W. T. Todd
District Sales Manager
Northwestern Bell Telephone Company
909 High Street
Des Moines, Iowa 50309

Re: Rock Island Railroad
Des Moines 284-7171

Dear Mr. Todd:

The present charge for Centrex service used by the Rock Island Railroad in Des Moines includes switching equipment and facilities necessary for intercommunicating between stations associated with the system and direct access to the exchange network. The Iowa tariff No. 1 allows for billing on the basis of being a complete service. I.E.: Not breaking down the charge into two separate categories (intercom and exchange access).

Federal tax is thus applied to the complete charge for the basic Centrex system.

Effective November 12, 1971 here in Illinois a more equitable tariff was developed by Bell. The change simply separated the charge of $9.25 per station into an Exchange Access cost of $.85 and an Intercommunication charge of $8.40. This means that all subscribers with Centrex systems realized a sizeable reduction due to much equipment becoming exempt.

This is more in line with standard U.S. tax application for regular PBX customers where only the trunks or exchange access lines are Federally taxable. Stations, switchboards and common equipment are exempt.

E1424
Exhibit 224

The change in tariff in Illinois had nothing to do with any change in the IRS code, Title 26, Chapter 33.

Thus we wish to encourage you to consider changing the wording in the Iowa tariff to provide for a more equitable U.S. tax application.

Respectfully,

COMTROL, INC.

Gene R. Conner

GRC:py
cc: Mr. W. J. Terrill
Mr. C. Nelson

E1425
EXHIBIT 225
December 9, 1971 memorandum

M-3.1205 - Excise Tax

RECEIVED
GEN COM
SAN A
DEC 9 1971
Mr. Cochran
Mr. Heckany
Mr. Steele

San Antonio, December 9, 1971

GENERAL COMMERCIAL MANAGER - San Antonio:

Sears, Roebuck and Co., Inc., one of our large CENTREX customers, who has Bell System service on a nationwide basis, has asked that we request repeal of the Federal Excise Tax that is applicable on Unrestricted CENTREX Stations.

Bell of Pennsylvania and Illinois Bell have each submitted a request this month.

The customer has asked for a positive reply if we intend to do as they request.

May we hear from you at your earliest convenience.

f M HKaiser
General Marketing Manager

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
225
USA 384-475
(ED. 4-23-71)

RECD DEC 9 1971 COM. SUP.

CIRCULATE	For Hndlg.	For Inf	Date Noted
Mr. Cochran			
Mr. Geo. Robinson	✓		
Miss Lockhart			
Mrs. Salinas			
Mrs. Wood			
Mr. Engdahl			
Mrs. Ware			
Miss Irving			
[illegible]			

PROTECTED

For use of counsel only

EASTERN AIR LINES INCORPORATED/ INTERNATIONAL AIRPORT/ MIAMI, FLORIDA 33148 / 305-873-2211

2-55

E1426
EXHIBIT 226
January 21, 1972 letter with attachments
from P.Q. Partee to R.J. Anthony

EASTERN

January 21, 1972

USA 83a-475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
226 id
FPI-MI—9-24-75-50M-4417

Mr. R. J. Anthony
Account Manager
Southern Bell Telephone & Telegraph Co.
2700 N. W. 15th Street
Miami, Fla. 33125

Dear Dick:

With further reference to our conversation regarding the reduction of Federal Excise Tax liability to CENTREX customers, attached is a copy of the Illinois Bell notice to Eastern Airlines regarding this reduction.

It is requested that you advise us of Southern Bell's progress in this regard.

Sincerely,

ORIGINAL SIGNED BY:
P. Q. PARTEE
P. Q. Partee
Regional Manager -
Communications

PQP:mm

Attachment

cc: Mr. R. E. Behenna
Mr. R. D. DeLoach
Mr. M. P. Smith

PROTECTED

JAN 13 1972
N02-58

Memo
P. Q. PARTEE
12
3
4
M. Rivers

E1427
Exhibit 226

Illinois Bell

January 4, 1972

Mr. Mike Kundracik
Eastern Airlines
Field A-5678-02
P.O. Box 1069
Oak Brook, Illinois 60521

Dear Mike:

Effective as of November 12, 1971, CENTREX customers in Illinois exchanges have a reduced Federal Excise Tax liability.

Other Bell System Companies, with the approval of A.T. & T. are now reviewing and rewriting their CENTREX tariffs to provide this same tax benefit.

The rate treatment for unrestricted main CENTREX type service terminals is being changed from the present single rate per terminal to a rate structure which provides for two individual rates per terminal.

> Exchange Access is for the access to and use of the exchange facilities, and is Federal taxable.
> Intercommunication is for Intra-system communication, is non-taxable.

The total of the two monthly rates per terminal will be exactly the same as the present rate.

For our service, Airport Terminal Service the following chart applies.

Terminals	FED. Exchange Access	NO. FED. Intercommunication
first 20	$ .85	$ 7.90
next 80	.85	6.90
over 100	.65	6.10

The restructured tariff will have no affect on A/C, (additional charges due to State and Local taxes.)

Sincerely,
June Gehringer
June Gehringer
Service Representative

CC: MESSRS. B. HILTS
E. E. KOENIG
P. Q. PARTEE ✓

E1428
EXHIBIT 228
March 3, 1972 letter from F.M. Pelka
to V. Flateley and J.M. Fastenau

USA 33a-475
(ED. 4-28-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
228

FPI-MI—9-24-75-50M-4417

March 3, 1972

Mr. Vincent Flately
225 Broadway
New York, New York 10007

Dear Mr. Flately:

We recently became aware of a dramatic change proposed for the 10% Federal Excise Tax applicable to all centrex non-restricted lines. Since we pay in excess of $33,000 a year in FET on our New York Centrex, we are keenly interested in any modifications to the present rate structure which would reduce this cost.

Illinois Bell Telephone has already implemented a plan which is based on a division of Centrex line usage. They have determined that approximately 60% of the calls made over a Centrex extension are internal calls and 40% are "exchange" calls. Therefore, the 10% FET is only applicable to the exchange calls which significantly reduces the overall tax burden.

We request that you investigate the status of similar modifications within New York Telephone Company. In addition, we would like to know what approach is being considered by New York Telephone and when some official rate changes can be expected.

The Illinois Bell Telephone Company approach has favorably impressed us and we strongly support any tariff modifications which would more equitably align the FET with exchange usage.

Your cooperation is appreciated.

Sincerely yours,
ORIGINAL SIGNED BY
F. M. Pelka
Manager
Telecommunications

JTDiChiara/gep

cc:
J. Fastenau - New York Telephone
G. Wehler - AT&T

E1429
EXHIBIT 230
May 6, 1972 letter from S.M. Herbst
to W.C. Bauer

TELEMATICS ASSOCIATES, INC.

SUITE 220
3110 MAPLE DRIVE, N.E.
ATLANTA, GEORGIA 30305
404 261-1000

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
230 id
USA 33a-475
(ED. 4-23-71)
FPI-MI—9-24-75-50M-4417

CJB

May 6, 1972

RECEIVED
MAY 15 1972
General Marketing
Supervisor's Office

Mr. W. C. Bauer
President
South Central Bell Telephone Company
South Central Bell Building
Birmingham, Alabama

Dear Mr. Bauer:

By way of introduction, we are communications consultants acting on behalf of the Union Planters National Bank of Memphis, Tennessee. We have designed for the Union Planters National Bank a new Centrex telephone system which will be cut over by South Central Bell representatives in Memphis in mid-July 1972.

As you, no doubt, are aware, there have been recent developments nationwide which will save hundreds of thousands of dollars for telephone company Centrex customers, and not result in any loss in revenues to local telephone companies. These savings come from a misapplied 10% federal excise tax on Centrex users. As we understand it, the United States Congress originally intended to levy this tax against service but not against equipment being supplied.

Recent developments point out that if a telephone company separates trunk rates from equipment rates on Centrex, the 10% excise tax will not apply to the equipment, as it does not apply to any PBX equipment.

Specifically, legally speaking, the Federal law allows exemption from the excise tax for Centrex service only if a separate charge is made for the service.

Actions have already been taken with definite precedents established in several telephone systems throughout the nation changing tariff schedules so that Centrex charges would be separated. These filings made no changes in rates, charges, or services; therefore, no governmental or public service commission action intervention took place.

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E1430
Exhibit 230

California General filed a "Letter of Advice" with the California Public Utilities Commission on August 10, 1971, informing them of their decision to separate trunk rates from equipment rates. A similar action was taken by Pacific Telephone on February 1, 1972 and became effective March 2, 1972 for Bell's Centrex customers in California.

McDonnell Douglas Corporation has also requested a new tariff filing from Southeastern Bell for its St. Louis Centrex system; this new filing should be in effect by the summer of 1972.

We are hopeful that South Central Bell, as it has so often done in the past, will join other industry leaders in pioneering customer-oriented actions.

Therefore, we formally request, on behalf of the Union Planters National Bank of Memphis, Tennessee, that South Central Bell take appropriate action, as described herein, so that the full intention of our nation's law-making will not be circumvented. We request a tariff filing for Union Planters' new Centrex system which provides separate charges for trunks and equipment.

We are most anxious to hear from you on this vital question at your earliest convenience.

Cordially,

Stuart M. Herbst
President

SMH/ch

cc: Mr. William Gibson
Administrative Services Officer
Union Planters National Bank
Union Planters Bank Building
Memphis, Tennessee 38103

PROTECTED

E1431
EXHIBIT 231
May 24, 1972 letter from D.N. Smith to L. Burke

GENERAL ELECTRIC

SPACE DIVISION

APOLLO AND GROUND SYSTEMS

GENERAL ELECTRIC COMPANY, P. O. BOX 2500, DAYTONA BEACH, FLORIDA 32015
Phone (904) 258- 3111

May 24, 1972

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
231

Mr. Leon Burke
Account Manager
Southern Bell Telephone Co.
711 Volusia Avenue
Daytona Beach, Florida 32015

Dear Leon:

It has come to my attention that Centrex subscribers throughout the U. S. can, under certain conditions, obtain considerable Federal tax relief for Centrex service (Ref: 2250 of Federal Excise Tax Report and IRS Rev. Ruling 69-152 on Section 4252, Internal Revenue Code of 1954.).

An exemption is granted, providing the serving telephone company (in our case, Southern Bell) can and will separate the present Centrex rate structure to distinguish between service (the capability of interconnecting with the public telephone network) and equipment (equipment and services for private communications, i.e., extension to extension calling, private lines, etc.). Under these conditions, Federal tax is applicable only to the service portion of the charges rather than the entire bill as it exists today.

Obviously, to accomplish this structure change and allow General Electric and other Centrex subscribers to take advantage of this tax exemption, it will require the concurrence and cooperation of the Southern Bell hierarchy (Division, State, or Corporate offices) to provide the necessary tariff and/or billing procedural changes.

Please consider this my formal request to pursue at the highest level necessary implementation, at the earliest possible date, of a system or means which will allow us (General Electric) to benefit from this IRS provision. Also, an effective date should be established in the event a retroactive credit is applicable. Such a system would obviously be beneficial to General Electric Company but in addition it would reduce Southern Bell's role as a collecting agent without affecting Southern Bell's revenue.

Your immediate attention to this request will be greatly appreciated. Please keep me informed as to your progress.

Very truly yours,

David N. Smith, Specialist
Telecommunications

DNS:bas

E1432
EXHIBIT 232
May 26, 1972 letter from P.R. Edwards
to T.A. Castellone

ALLIED STORES CORPORATION
1114 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10036

EXECUTIVE OFFICES

USA 33a - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
232 id
FPI-MI—9-24-75-50M-4417

May 26, 1972

Mr. Thomas A. Castellone ✓ 3712
Industry Sales Manager
New York Telephone Company
Marketing Department
1220 Broadway
New York, N.Y. 10001

Dear Mr. Castellone:

Several months ago we contacted Mr. Richard Johnson, District Sales Manager (Retail Division) New York Telephone with reference to the matter of excise tax charges on our new Centrex telephone system. Mr. Johnson advised us that the New York Telephone Company had not filed for a change in the Centrex billing and that he did not anticipate a filing before June 1 with an effective date of August 1.

We note that other Bell System associated companies filed for an "unbundling" of the packaged systems as early as December, 1971, and therefore the tax savings accrued to the benefit of the Bell system subscribers as of the first of this year or earlier. Allied Stores Corporation contracted for Centrex as of February 14, 1972 with billing effective as of that date. We therefore believe that we are entitled to the tax benefits derived from the "unbundling" as of February 14.

It is our interpretation that excise tax is applicable only to exchange services which are associated with central office trunks used by New York Telephone to supply service to and from the general public. Our requirements today are no different than they were prior to February 14 when excise tax was applied solely to central office trunks. We are now, however, required to pay excise tax on internal dialing service. We believe this to be extremely inequitable particularly in view of the fact that other customers of the Bell system are not paying this tax any longer.

We therefore request that in applying for an "unbundling" tariff you include a retroactive adjustment to January 1, 1972 which would coincide with the date of other Bell system tariffs, such as Illinois Bell and Pennsylvania Bell.

I would appreciate your serious consideration in this matter and a reply stating your intention with reference to this filing.

Very truly yours,

Patrick R. Edwards

Patrick R. Edwards
Assistant to the President

PE:rc

225 West Randolph Street, Chicago, Illinois 60606 Telephone (312) 727-9411

E1433
EXHIBIT 236
October 11, 1971 memorandum from
H.F. Rolfe to W.P. Campbell

Illinois Bell
Telephone Company

Marketing Department
headquarters

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
236

October 11, 1971

Mr. W. P. Campbell
General Rate Supervisor

Our review of your proposed modification of making Centrex rates specific to intercom versus exchange service suggests these possible difficulties:

1. Touch-Tone is provided by adding $1.00 per station to the exchange-only portion. This is inconsistent with our recent filing which splits TT charges between stations and trunks as it pertains to PBX's.

2. We anticipate a question in establishing consistency between the proposed breakdown and charges for interconnected DID and AOID. When the latter are filed they will be scrutinized against this offering.

3. Customers and outside suppliers will attempt to "buy" the exchange portion separately and will misinterpret it as an AOID/DID filing. The tariff language and ATI's should clarify.

4. There will be pressure for retroactive tax recovery. We need to equip the field with the rationale that explains why this action was not taken a number of years ago.

Other than these possible problem areas, it looks like a good change. I'm working now to calculate its specific effect on a number of customers. I'm using the list we used earlier to appraise the effect of the general rate case.

H. F. Rolfe

cc: Mr. R. M. Smith

Centrex Rate Restructuring

[illegible]
08

E1434
EXHIBIT 237
October 15, 1971 memorandum from
W.P. Campbell to H.F. Rolfe

FILE COPY

October 15, 1971

Mr. H. F. Rolfe
Marketing Program Director - Business

In connection with your letter of October 11, 1971 and as we have discussed informally, we are proceeding with plans to restructure Centrex rates to achieve a more equitable application of Federal Excise Tax. I hope the following information will answer the questions raised in your letter and will be of help in implementing the proposed Centrex rate structure:

1. The present Touch Tone charges for PBX switching equipment and stations are exempt from Federal Excise Tax. It is expected that the proposed Touch Tone trunk increment for PBX service will also be exempt. In order for Centrex customers to enjoy this same tax treatment, the Centrex Touch Tone increment has been included with the Centrex Intercommunication Charge (CIC), the portion of the terminal rate not subject to FET.

2. The proposed rates for DID and AIOD trunks for interconnection with customer provided PBX equipment will not be structured to be equivalent to the Centrex Exchange Access Charge (CEAC) portion of the Centrex terminal rate, even though a customer provided PBX with DID and AIOD trunks will be comparable to Centrex CU service. Three of the elements included in the Centrex CU rate development were exchange trunks, in-dialing directly to terminals and identification and billing of outgoing toll messages by terminal number. Only the exchange trunks element is reflected in the CEAC. The other two elements are included in the CIC, hence it is impossible to establish an identical comparison.

3. The AT&T letter of September 27, 1971, on Centrex Rate Restructuring suggests that a regulation be included in the Centrex tariff advising customers that the two Centrex terminal rate elements are not offered separately. Such a statement will be included in our proposed Centrex tariff.

4. Pages 1 and 2 of the AT&T Centrex Rate Restructuring letter of September 27 gives a thorough explanation of the rationale behind the timing of this restructuring. This should be of help in preparing any material for release to the field.

We trust these facts will be helpful in explaining our position to customers.

EXHIBIT
U.S. DIST. COURT
S.D. OF N.Y.
237

W.P. Campbell
10/15/71

J.P.S.
JJP:EC

E1435
EXHIBIT 251
Colorado Public Utilities Commission
Decision No. 83232

[illegible] 6/27/73

JUN 25 1973

22527

AJK

File

(Decision No. 83232)

G-1
Colo

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * *

RE: INVESTIGATION AND SUSPENSION OF PROPOSED CHANGES IN TARIFF COLO. PUC NO. 5 - TELEPHONE, OF THE MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY, UNDER ADVICE LETTER NO. 800.	INVESTIGATION AND SUSPENSION DOCKET NO. 756
RE: INVESTIGATION AND SUSPENSION OF PROPOSED CHANGES IN TARIFF COLO. PUC NO. 5 - TELEPHONE, OF THE MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY, UNDER ADVICE LETTER NO. 805.	INVESTIGATION AND SUSPENSION DOCKET NO. 758 DECISION OF THE COMMISSION

- - - - - - - -
June 22, 1973
- - - - - - - -

Appearances: Denis G. Stack, Esq., Denver, Colorado, for Mountain States Telephone and Telegraph Company, Respondent.

Wolfgang Drescher, Esq., Washington, D.C., for the Secretary of Defense on Behalf of the Department of Defense and all Other Executive Agencies of the United States, Intervenors.

James Spelman, Assistant City Attorney, Denver, Colorado, for the City and County of Denver, Intervenor.

John W. Thaxton, Jr., Boulder, Colorado, Communications Coordinator on behalf of the University of Colorado, Intervenor.

Walter A. Steele and R. Eric Peterson, Esqs., Denver, Colorado, for General Rose Memorial Hospital, Intervenor.

James M. Lyons, Esq., Denver, Colorado, for Sears, Roebuck and Co.

Clint Warkow, Corporate Communications Manager, for Montgomery Ward & Co., Chicago, Illinois.

John E. Archibold, Esq., Denver, Colorado, for the Staff of the Commission.

USA 33a-475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
251

FPI-MI—9-24-73-50M-4417

E1436
Exhibit 251

PROCEDURE AND RECORD

Mountain States Telephone and Telegraph Company (Respondent herein, and hereafter referred to as "Mountain Bell") on November 13, 1972, filed with the Commission its Advice Letter No. 800, accompanied in part by two tariff sheets. By this filing Mountain Bell proposed to revise the Centrex CO I and II rate schedule that was filed in accordance with Decision No. 81320, dated September 19, 1972. The proposed filing involved Section 6, Part 5, of the General Exchange Tariff.

On December 12, 1972, the Commission in Decision No. 81930 suspended Mountain Bell's tariffs filed pursuant to Advice Letter No. 800 for a period of 120 days or until April 12, 1973, unless otherwise ordered. By the same decision the Commission set the matter for hearing for February 8, 1973, and ordered Mountain Bell to give notice of the hearing to all customers receiving service and all potential customers with which it was negotiating to supply service under Section 6, Part 5, of the General Exchange Tariff. On April 6, 1973, the Commission, in Decision No. 82736, further suspended the effective date of these tariffs filed pursuant to Advice Letter No. 800 for an additional period of 90 days or until July 11, 1973, unless otherwise ordered.

On December 11, 1972, the Secretary of Defense filed a Protest against and Petition for Investigation of the Proposed Change in Rates, Rules and Regulations as filed by Mountain Bell Pursuant to Advice Letter No. 800. On January 31, 1973, the Secretary of Defense filed a Petition for Leave to Intervene on Behalf of the Department of Defense and all Other Executive Agencies of the United States. On February 2, 1973, the Commission granted the Secretary of Defense leave to intervene pursuant to Decision No. 82277.

On January 18, 1973, Sears, Roebuck and Co. and Montgomery Ward & Co. filed a Petition to Intervene by their attorneys, Rothgerber, Appel & Powers. On January 22, 1973, Rothgerber, Appel & Powers filed a Withdrawal of Appearance for Montgomery Ward & Co. On January 26, 1973, Sears, Roebuck and Co. and Montgomery Ward & Co. were granted leave to intervene pursuant to Decision No. 82234.

On February 7, 1973, General Rose Memorial Hospital filed a Petition to Intervene. This petition, as well as an oral motion to intervene, was granted by the Hearing Examiner on February 8, 1973.

On November 20, 1972, Mountain Bell filed its Advice Letter No. 805 accompanied by four tariff sheets. By this filing Mountain Bell proposed to provide a revised rate schedule for Airport Dial telephone service by reintroducing a block rating schedule identical to that filed with Advice Letter No. 800 covering Centrex II CO except that a restricted station will be provided at the intercommunication portion of the main station rate. The proposed filing involved Section 40 of the General Exchange Tariff.

On December 19, 1972, in Decision No. 81998 the Commission suspended two of the tariff sheets, namely, Fifth Revised Sheet No. 5, and Original Sheet No. 5A, of Section 40, Colo. PUC No. 5 - Telephone, for a period of 120 days or until April 19, 1973, unless otherwise ordered. The Commission set the matter for hearing on February 8, 1973, and ordered Mountain Bell to give notice on the hearing to all customers receiving service and any potential customers with which Mountain Bell was negotiating to supply service under Section 40 of the General Exchange Tariff. On April 10, 1973, the Commission, in Decision No. 82767, further suspended the effective date of these tariffs filed pursuant to Advice Letter No. 805 for an additional period of 90 days or until July 18, 1973, unless otherwise ordered.

On January 26, 1973, United Airlines filed a "Statement of United Airlines" in Investigation and Suspension Docket No. 758.

Investigation and Suspension Docket No. 756 and Investigation and Suspension Docket No. 758 were consolidated for hearing. After due and proper notice the matter was heard by Examiner Robert L. Pyle in the Hearing Room of the Commission in Denver, Colorado, on February 8 and 9, 1973.

Robert W. Heath and Donald E. Fordyce testified as witnesses for Mountain Bell. Exhibit Nos. 1, 2, 3, 4, and 5 were identified by these witnesses and admitted in evidence. Dale Button, the Assistant Administrator of General Rose Memorial Hospital, testified on behalf of such organization. Leonard Plotkin, Deputy Assistant Commissioner for Telecommunications Operations of the General Services Administration, testified on behalf of the customer interests of the Federal Executive Agencies. Exhibit No. 6 was identified by this witness and admitted in evidence. At the conclusion of the hearing on February 9, 1973, the Examiner took the matter under advisement.

Briefs or statements of positions were permitted to be filed on or before March 9, 1973, and proposed findings of fact and conclusions of law on or before March 19, 1973. Statements of positions were filed by Mountain Bell, the Department of Defense, the City and County of Denver, General Rose Memorial Hospital, and the Staff of the Commission. Proposed findings of fact and conclusions of law were filed by the Department of Defense, Mountain Bell, and the Staff of the Commission. On February 27, 1973, the official reporter filed the transcript of testimony with the Commission.

On May 14, 1973, Examiner Robert L. Pyle entered his Recommended Decision No. 82972 in these matters and, pursuant to the provisions of CRS 115-6-9, transmitted to the Commission the record and exhibits of this proceeding, together with said Recommended Decision. The time for filing exceptions to this Recommended Decision expired on June 4, 1973. On May 31, 1973, Exceptions were filed by the Secretary of Defense. CRS 115-6-9(2) provides in part as follows:

> "(2) Whenever any hearing, investigation, or other proceeding shall be assigned to an examiner or individual commissioner for hearing, the examiner or individual commissioner, after the conclusion of said hearing, shall promptly transmit to the commission the record and exhibits of said proceeding together with a written recommended decision which shall contain his findings of fact and conclusions thereon, together with the recommended order or requirement. Copies thereof shall be served upon the parties, who may file exceptions thereto; but if no exceptions are filed within twenty days after service upon the parties, or within such extended period of time as the commission may authorize in writing (copies of any such extension to be served upon the parties), or unless such decision is stayed within such time by the commission upon its own motion, such recommended decision shall become the decision of the commission and subject to the provisions of section 115-6-15. The commission, upon its own motion may, and where exceptions are filed it shall, reconsider the matter, either upon the same record or after further hearing, and such recommended decision shall thereupon be stayed or postponed pending final determination thereof by the commission. The commission may adopt, reject, or modify the findings of fact and conclusions of such individual commissioner or examiner, or, after examination of the record of any such proceeding, enter its decision and order therein without regard to the findings of fact and conclusions of any individual commissioner or examiner . . . ."

The Commission on June 1, 1973, entered Decision No. 83076, stating, inter alia:

> "On May 14, 1973, Examiner Robert L. Pyle entered his Recommended Decision No. 82972 in Investigation and Suspension Docket No. 756 and Investigation and Suspension Docket No. 758. Under the provisions of CRS 115-6-9(2), the Commission on its own motion has decided to reconsider the matter upon the same record that was before the Examiner, and has further determined, pursuant to statute, that said Recommended Decision No. 82972 be stayed pending a final determination of Investigation and Suspension Docket No. 756 and Investigation and Suspension Docket No. 758 by the Commission."

and ordering that Decision No. 82972 be "stayed pending reconsideration and final determination of Investigation and Suspension Docket No. 756 and Investigation and Suspension Docket No. 758 by the Commission." The Commission, in the instant proceeding, has now reconsidered these matters upon the same record, and after examination of such record, has decided to enter its decision and order herein without regard to the findings of fact and conclusions of Examiner Robert L. Pyle.

FINDINGS OF FACT

After consideration of the entire record in this proceeding, the Commission finds as fact from such record that:

1. Mountain Bell is a public utility engaged in the business of providing telephone utility service both intrastate and interstate within the State of Colorado and other states. Mountain Bell's intrastate telephone business within the State of Colorado is under the jurisdiction of the Commission, and the Commission has jurisdiction over the subject matter herein. The dockets herein under consideration concern tariffs filed by Mountain Bell for Centrex CO stations and Airport Dial stations, and in all instances involve substantial rate reductions. For example (considering only station charges), a 300 station Centrex CO in Denver would have cost the customer $3,640 ($12.13) per station a month, prior to Commission Decision No. 81320. The present rate for such a service under Decision No. 81320 is $6,345 ($21.15 per station) a month. Under the proposal of Mountain Bell here being considered (I&S Docket No. 756), the rate for such service would be reduced to $4,940 ($16.46 per station) a month. Assuming one attendant position, the comparable per station charges would be $13.23, $21.57, and $16.88 (see Exhibit No. 1). The tariffs under consideration in I&S Docket No. 758 proposed similar rate reductions for Airport Dial service.

E1441
Exhibit 251

2. Centrex service is a form of private branch exchange (PBX) which provides a customer with the capability of intercommunication on the customer's premises as well as access by the customer to the General Exchange Tariff Network.

3. Two service features which distinguish Centrex service from PBX service are Direct Inward Dialing (DID) and Automatic Identification of Outward Dialed Toll (AIOD). Direct Inward Dialing allows a person outside the customer's premises to dial directly to a specific station on the customer's premises rather than having the incoming call handled by a switchboard operator on the customer's premises and then forwarded to the specific called destination. Automatic Identification of Outward Dialed Toll allows a person in the Centrex system to make a toll call and to have the toll call charged directly to the phone that originates the call. Subsequent toll billing information is then furnished to the customer so that he may determine which particular stations in his system are originating which particular toll calls.

4. The facility configurations of Centrex are referred to as Centrex CO and Centrex CU. In Centrex CU, trunk circuits are extended from the central office of Mountain Bell to the customer's premises, and the switching equipment is located on the customer's premises. The switching equipment located on the customer's premises is normally referred to as a private branch exchange (PBX) or a private automatic branch exchange (PABX). With respect to Centrex CO, the switching equipment, rather than being located on the customer's premises, is located in a Mountain Bell central office, and is actually a part of the switching equipment of such office, and instead of trunk circuits being provided to the customer's premises, individual lines are run to each individual station as well as to the so-called attendant position. The physical distinctions as to PBX, Centrex CO, and Centrex CU are set forth in diagram form in Exhibit No. 4.

E1442
Exhibit 251

5. The service features of basic PBX are attendant position, direct outward dialing, station to station dialing (4 digits), station hunting, call transfer--attendant, restriction from outgoing calls, power failure transfer, and night service.

6. The basic service features of Centrex I CU are the same as the basic series 100 PBX features plus Direct Inward Dialing and Identification of Outward Dialing.

7. The basic service features of Centrex I CO are all Centrex CU I features plus Battery Reserve Power and Floor Space and Commercial Power.

8. The basic service features of Centrex II CU are all Centrex I CU features plus:

Call Transfer--Individual
Consultation Hold
Add-On
Trunk Answer from any Station

9. The basic service features of Centrex II CO are all Centrex II CU features plus:

Battery Reserve Power
Floor Space and Commercial Power

The basic service features of Airport Dial are the same as all Centrex II CO features.

10. The Centrex CO basic station rate and the Airport Dial basic station rate presently are $21.15, which rate is identical with one-party flat business rate as a result of the Order of the Commission in Decision No. 81320 dated September 19, 1972. In such decision, the Commission found (Finding of Fact No. 27) that the service provided by Centrex CO is that of an individual business line and that the same rates should apply. Finding of Fact No. 27, Decision No. 81320, reads as follows:

> "27. Centrex service at the present time is provided on the basis of the number of stations only, without regard to the number of trunks required for access to and from the network. Inherently, such a method of charging is unjustly discriminatory when

customer usage is widely different, as evidenced by the station-to-trunk ratios actually existing for specific customers. It is hardly fair or reasonable to charge the same number of dollars for a 1,000 station installation regardless whether the number of trunks required to provide adequate network access is 100 or 300.* (*The example is merely illustrative and does not reflect the conditions for any particular Centrex service.) Obviously, aside from the fact that a larger number of trucks (sic) requires a larger truck (sic) investment, the usage of central office switching and the balance of the network is much higher. The increased requirement for switching and other network facilities, incidentally, is not linear; due to the fact that a larger number of trunks will result in a more efficient use of each trunk, calling volume increases faster than the mere number of trunks.

The original Mountain Bell proposal was to provide for a charge for 'excess trunks', i.e., the number of trunks over a predetermined station to trunk formula. This proposal does not solve the problem in a reasonable manner, as there is no decrease in charges if the number of trunks is below that permitted by the formula, and is unjustly discriminatory.

During the proceeding, Mountain Bell advanced an alternate proposal that does not consider excess trunks, or for that matter, consider the number of trunks for a specific customer at all, but is an attempt to 'update' the station-to-trunk ratio from the one considered in the original rate development to one allegedly more appropriate at this time. This proposal has basically the same deficiencies as the present rate structure as it uses an averaging concept not used in other PBX service, where customers are charged on the basis of actual number of trunks. The use of any assumed station-to-trunk ratio to develop station rates that include trunk use, however developed, is not reasonable, as it does not even remotely reflect network use by individual customers, and therefore gives a preferential rate to customers with high network usage. Considerable testimony and cross-examination has taken place on this record regarding the fallacies in developing appropriate station-to-trunk ratios. It is perfectly evident that the propriety of ratios used by Respondent in this original rate development is highly doubtful as to their applicability to Respondent's Colorado Centrex customers. The same is true of the 'updated' ratios contained in Respondent's alternate proposal.

The only reasonable and non-discriminatory rate treatment for Centrex service has been proposed by the Commission Staff (Exhibit 66). In this proposal all trunks for Centrex users would be charged at the same rates as other PBX users. Station rates are adjusted to remove the trunk component originally contained in the station rates. The fact that the trunk component may have been based upon an erroneous station-to-trunk ratio is immaterial; whatever was added, must be removed, and it does not matter if the wrong amount was originally added.* (*As an analogy, if a purchase were returned to a department store, one would expect a refund equal to the price paid, even though the clerk at the time of purchase rang up the wrong price on the cash register.) In addition the resulting station rates under the Staff proposal are just and reasonable in comparison to other PBX station rates. Centrex service provides the additional service of direct in-dialing and automatic number identification on toll calls, is a premium service, and the station rates should reflect an appropriate premium over other PBX station rates.

The number of Centrex trunks required for adequate service can be determined by telephone company measurements, the customer, of course, retaining the right to make independent measurements. Such measurements by the telephone company are necessary for a two-fold purpose; the customer should be advised if the number of trunks is excessive, and should be required to add more trunks if the number of trunks is inadequate. An inadequate number of trunks will result in not only poor service to the customer, but will also cause backing up of incoming calls within Respondent's central offices and deteriorate service to other customers.

This problem is the same in case of Centrex service as other PBX service. If present tariff provisions are inadequate to prevent a customer from subscribing to an inadequate number of trunks, Mountain Bell should file appropriate changes. To simply add trunks at no charge if usage increases as at present constitutes an undue preference to Centrex customers over other PBX customers.

Centrex-CO service is completely different from Centrex-CU service which has been discussed above. The PBX switcher is located at telephone company central office, and no trunks are provided as such. Every main station on a Centrex-CO system is terminated in the central office. Essentially, the service provided is that of an individual business line and the same rates should apply.

The Air Force Academy service is neither a Centrex CU or Centrex CO service. It has some of the features of Centrex; the switching equipment is located at telephone company central office and no trunks are provided as such; the use is similar to special school Centrex, which considers the business use of the college as well as residential dormitory use. In other words, it is neither fish nor fowl; it is a special rate for a special customer. The only reasonable rate treatment, considering all these factors, would be to increase the rate on

> the basis of the average increase for all Centrex users of 7.8%.* (*Computed on the assumption that Centrex customers will subscribe to the number of trunks shown to be necessary by Mountain Bell's traffic studies, shown as 'engineered trunks' in Exhibit 16, which is a reasonable assumption in this regard.)
>
> Airport Dial is Centrex CO service and is properly charged at the same rate as individual business service.
>
> Both Respondent and Staff propose that Centrex stations at secondary locations be charged at the same rate as at primary locations. We perceive no difference because of location and find that these proposals are just and reasonable.
>
> In the case of Special School Centrex, the rate for dormitory stations should be equal to the lower block rate for administrative (or business) stations. There is no cogent reason why dormitory stations, having residential use characteristics, should have a higher rate than business stations, and the Staff proposal is found to be just and reasonable in this respect.
>
> Considering that all trunks will be charged at 1.6 times the applicable business rate, the additional revenue resulting from the rate changes found proper in this finding amounts to $378,000* based on the test year. (*Computed on the assumption that Centrex customers will subscribe to the number of trunks shown to be necessary by Mountain Bell's traffic studies, shown as 'engineered trunks' in Exhibit 16, which is a reasonable assumption in this regard.)"

No physical changes in Centrex CO service as compared to individual business service have occurred since September 19, 1972, the date of Decision No. 81320.

11. Mountain Bell introduced no evidentiary studies in the instant proceeding to support its contentions that: (a) the average individual line subscriber uses his phone more than the Centrex CO subscriber; (b) it is less expensive to install a Centrex CO station than an individual business station; (c) costs per phone decrease as the number of phones are added to the system (i.e., a customer's Centrex system). Mountain Bell introduced no evidentiary study to establish how much a Centrex CO user uses his phone for "outside" calling (General Exchange Access) as compared to "inside" calling (intercommunication).

12. Mountain Bell has not lost any physical Centrex equipment as a result of the cancellation of the University of Colorado of its order for Centrex service.

13. When Mountain Bell filed tariffs for Centrex service on January 27, 1972, which was part of the filing for the general 1972 rate case, there were only three Centrex CO customers, to-wit: the General Services Administration at the Denver Federal Center, the Department of Defense at Fort Carson, and Great Western United. Official notice is taken of the fact that of the three, only Great Western United is subject to the payment of federal income and excise taxes.

14. A telephone station in a hospital room occupied by a patient is used almost exclusively, if not entirely, by the patient and his personal visitors rather than by persons on the hospital staff. General Rose Memorial Hospital charges a patient $3.00 per week for use of the phone in his room which rate covers the cost of service. At the present time, General Rose Memorial Hospital does not utilize Centrex CO service, but it does have a contract with Mountain Bell for such service in the future. However, General Rose has instructed Mountain Bell to place the Centrex CO equipment on hold, pending whether, or to what extent, the Centrex CO rates are changed as a result of this proceeding.

15. There are 53 customers of Airport Dial at Stapleton International Airport, 49 of whom have less than 100 stations at the present time.

16. Mountain Bell and the intervenors contended that the rate differential between Centrex CO and Centrex CU is so substantial that discrimination exists between the two. No evidence as to the relative cost of service of Centrex CO and Centrex CU was introduced. It is true that a rate disparity presently exists as to Centrex CO and Centrex CU. Prior to Decision No. 81320, the rates were identical. At the present

time, however, a 300 station Centrex CO would cost a customer $6,345 a month ($21.15 per station), whereas a 300 station Centrex CU (with 50 trunks) would cost a customer $4,009 a month ($13.36 per station). However, a 300 station Centrex CU (with 300 trunks) would cost a customer $12,469 a month ($41.56 per station), and one trunk per station would be necessary in a Centrex CU system to provide the same access to the network as is automatically provided by the Centrex CO system.

DISCUSSION

The starting point in any discussion of whether the Centrex CO rate should be changed, as proposed by Mountain Bell, is to recognize the equality between the Centrex CO rate and the one-party business line rate presently in effect. This parity of rates is a direct result of the Commission's Order in Decision No. 81320. The rationale for the Commission's ordering parity between Centrex CO and the one-party business line rate is set forth at length in Finding of Fact No. 27 in Decision No. 81320.

It is true, of course, that prior to Decision No. 81320, the services provided to Centrex CO and Centrex CU customers were basically similar, although there were then, and continue to be now, mechanical differences in their respective operations. The Centrex CO customer has a direct line to the telephone company switching equipment located at the latter's central office, whereas the CU customer does not have a direct line to the telephone company's central, but must go through switching equipment located on his premises to reach a trunk to the central office if a trunk is open at the time he makes a call. Prior to Decision No. 81320, the telephone company furnished, without additional charge, sufficient trunks to the CU customer so as to provide service at a level of quality equal to P.02 (which means 98% of the calls could be completed through the central office without blockage).

E1448
Exhibit 251

Subsequent to Decision No. 81320, the service equivalence, if any, between CO and CU is dependent upon the number of trunks for which the CU customer has subscribed. If the CU customer chooses to obtain the maximum grade of service obtained by the CO customer, he (the CU customer) necessarily would have to subscribe to additional trunks (one trunk per station) at additional cost. Accordingly, it is quite unrealistic to assume that at the present time CO and CU service is equivalent.

It must be kept in mind that the rate paid by single business line customers and the CO customer is not based on how much or how little the phone is used. The CU customer, on the other hand, will have to subscribe to more trunks if his usage increases sufficiently and the CU customer wants to retain a quality of service equal to P.02 as described above. In other words, if the CU customer uses his phone more, he will have to pay more. Thus, it is misleading to assume that CO and CU service is equivalent at the present time--it depends upon the number of trunks to which the CU customer has subscribed.

As the basic findings of fact indicate, nothing physical has happened with respect to Centrex CO and Airport Dial since September 1972 when the Commission issued its last major rate order, nor has any evidentiary study been introduced by Mountain Bell in this proceeding which would indicate, let alone justify, a change.

Fair regulation requires nondiscrimination in rates among customers receiving the same or similar service. In addition, unreasonable discrimination is specifically prohibited by CRS 115-3-6. Neither budgetary limitations or the ability to pay, nor possible spurs to technological developments are proper criteria for special treatment. Basically, the positions advanced by the Federal Government and United Airlines are self-serving endorsements of lower rates for themselves, and are entitled to little, if any, weight.

Rates presently in effect are presumed to be fair and reasonable and the proponent of a change has the burden of proving the contrary. If, in fact, there is a discriminatory differential between Centrex CO and Centrex CU, there is the logical and necessary inference either that Centrex CO is too high, or Centrex CU is too low. If the differential is to be reduced, it may well be that Centrex CU should be raised to a level slightly below Centrex CO and the one-party business rate rather than lowering the Centrex CO rate to a level slightly above the Centrex CU rate. Mountain Bell has not sustained the burden of justifying why Centrex CO should be lowered rather than Centrex CU raised. Centrex CU rates, of course, are not at issue in the subject dockets.

CONCLUSIONS BASED ON FINDINGS OF FACT

1. The Centrex CO and Airport Dial rates filed by Mountain Bell pursuant to Advice Letters No. 800 and No. 805, respectively, are unjust and unreasonable in that they discriminate among classes of customers receiving similar telephone service.

2. The value of service received by Centrex CO, Airport Dial, and individual business line subscribers is the same or basically similar and the three said classes of customers should be charged the same basic rate.

3. As an exception to conclusion No. 2, it is concluded that the value of service received by a hospital patient who is the ultimate consumer and payer for the service (although the phone is listed in the hospital's name and the hospital technically pays the bill) is the same or basically similar to that received by an individual residential subscriber. Accordingly, if a hospital subscribes to Centrex CO, the stations in patients' rooms should be charged at the residential rate.

4. Mountain Bell's proposals for a breakout of the Centrex CO and Airport Dial station rate as between exchange access and intercommunication is unjust and unreasonable in that it discriminates among

classes of customers receiving similar telephone service. In any event, there is no evidence to support Mountain Bell's proposition that the exchange access portion of Centrex CO and Airport Dial service is worth only $5.00.

5. Mountain Bell should file a revision of its Centrex CO tariff to reflect the main station rate in a hospital patient's room at the same residential rate in the applicable rate group for other residential customers as established by the Order herein.

6. The Exceptions filed herein by the Secretary of Defense are without merit and should be denied.

ORDER

THE COMMISSION ORDERS THAT:

1. General Exchange Tariff, Colorado PUC No. 5, Section 6, Part 5, private branch exchange service, Fifth Revised Sheet and Original Sheet 5A, filed by Mountain Bell pursuant to Advice Letter No. 800 on November 13, 1972, be, and hereby are, rejected and not permitted to become effective, and in lieu thereof, the existing rates and charges for Centrex CO be, and hereby are, established as the rates therefor, except as provided by Paragraph 3 of this Order.

2. General Exchange Tariff Colorado PUC No. 5, Section 40, Airport Dial service, 5th Revised sheet No. 5, Original sheet No. 5A, be, and hereby are, rejected and not permitted to become effective, and in lieu thereof, the existing rates and charges for Airport Dial be, and hereby are, established as the rates therefor.

3. The Centrex CO rates for main stations located in patients' rooms in hospitals shall be the same as for individual line residential service, as of the effective date of this Order.

4. The Exceptions filed herein by the Secretary of Defense be, and the same hereby are, denied.

E1451
Exhibit 251

5. That within thirty (30) days of the effective date of this Order, the Respondent shall refile with this Commission appropriate tariff sheets reflecting (a) the rates and charges established by this Order, (b) the effective date thereof, and (c) the authority under this Decision. This filing is required solely for housekeeping purposes and may be made without further notice--this Order being fully self-executing in all respects.

6. Investigation and Suspension Docket No. 756 be, and hereby is, closed.

7. Investigation and Suspension Docket No. 758 be, and hereby is, closed.

8. This Order shall be effective forthwith.

DONE IN OPEN MEETING the 22nd day of June, 1973.

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

EDWIN R. LUNDBORG

HOWARD S. BJELLAND

Commissioners
vjr

COMMISSIONER HENRY E. ZARLENGO DISSENTS.

COMMISSIONER HENRY E. ZARLENGO DISSENTING:

I respectfully dissent.

In Decision No. 81320, dated September 19, 1972, the majority authorized rate increases for a number of telephone services including Centrex CO and certain Centrex CU services. Said Decision is still under Court appeal and the legality of the rate increases therein authorized, although meanwhile effective, has not been finally adjudicated. No evidence was entered in the record of the present case by the Respondent to justify higher rates for Centrex CO service, or for Centrex CU service, other than those rates which were in effect prior to Decision No. 81320.

I dissented to Decision No. 81320 holding in substance that the evidence presented did not justify a change in the rates in effect prior to the Decision. For the reasons therein stated, and as no evidence was entered in the record of the present case by the Respondent to justify rates for Centrex CO service, or for Centrex CU service, higher than those rates which were in effect prior to Decision No. 81320, I must also dissent to the majority decision herein which maintains the rate increases which were authorized by Decision No. 81320 for Centrex CO and Centrex CU services.

Addressing myself to Recommended Decision No. 82972 herein under consideration, it also authorizes rate increases for Centrex CO and certain Centrex CU services which are higher than the rates which were in effect prior to Decision No. 81320, although not at a level as high as the level Commission Decision No. 81320 authorized. For the reasons above-mentioned I disapprove of said Recommended Decision.

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

(S E A L)

HENRY E. ZARLENGO

Commissioner
hbp

ATTEST: A TRUE COPY

Harry A. Galligan, Jr.

Harry A. Galligan, Jr., Secretary

EXHIBIT 265
Form of December 19, 1974 IRS letter
to various taxable Centrex customers

230 S.
Address any reply to: Dearborn St., Chicago, Ill. 60602
Department of the Treasury

District Director
Internal Revenue Service

USA 33a-475
(ED. 4-23-71) PLAINTIFF
DEFENDANT

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

265 id

FPI-MI—9-24-75-50M-4417

Date: Dec. 19, 1974
In reply refer to: A:E:203:MAS
Person to contact: M. A. Sieracki
Telephone number: 312-353-3450

American Telephone and Telegraph Co.
195 Broadway
New York, N. Y. 10007
Attn: Victor S. Gomperts-Room 1121

Dear Taxpayer:

This refers to our letter of June 14, 1974 in which the Internal Revenue Service proposed additional excise tax on Centrex equipment and services for the period ended October 31, 1971. As stated in that letter the Service was considering other Centrex issues for periods subsequent to October 31, 1971.

On the initial examination, you decided not to execute Form 872-B to extend the statute of limitations. Since the Centrex issues are still under consideration (including whether the allocation Illinois Bell Telephone Company has made with respect to Centrex telephones for internal access and external access), we are not in a position to determine the additional tax liability at this time. Therefore, the Service is soliciting consents to extend the statute of limitations in order to allow more time to ascertain the correct liability.

Although the examination period begins on November 1, 1971, it is necessary for the consent to reflect October 1, 1971 as the beginning date in order to correspond with the period of the return filed by the telephone company.

If it is necessary to make any changes in the name or address on Form 872-B, please make these changes in pen and ink initialed by the person signing the consent to extend the statute. However, do not make any other changes on the form. Erasures are not permitted.

If the enclosed consent is not signed and returned to our office within fifteen (15) days of the date of this letter, the Service will have no other recourse except to make an assessment based on the best information available at that time.

Please use the enclosed pre-addressed envelope when returning the signed consent.

Sincerely yours,

District Director

Enclosures:
Form 872-B
Envelope

EXHIBIT 266

Form of January 27, 1976 IRS letter to various taxable Centrex customers

Internal Revenue Service

District Director

Department of the Treasury

230 S. Dearborn St., Chicago, Illinois 60604

Person to Contact: L. A. Zalud

Telephone Number: 312-353-3450

Refer Reply to: A:E:1203:L. Zalud

Date: January 27, 1976

American Telephone
and Telegraph Co.
195 Broadway
New York, New York 10007

Attn: Victor S. Gomperts
Room 1121

Dear Taxpayer:

During the course of examining the books and records of Illinois Bell Telephone Company, the Internal Revenue Service has determined that it did not collect the correct excise tax due for Centrex communications equipment and accessories which it furnished for your use. The Service is also considering whether the allocation the telephone company has made with respect to Centrex telephones for internal access and external access is reasonable.

This tax is imposed under Section 4251 of the Internal Revenue Code of 1954 upon the person paying for the services. Since the telephone company has refused to back-bill its customers for the additional tax due, it will be necessary for the Service to make direct assessments against the respective customers for the additional tax due.

Since the specific amount of additional tax due has not been determined at this date, the Service is soliciting consents to extend the statute of limitations in order to allow more time to ascertain the correct liability.

If it is necessary to make any changes in the name or address on Forms 872-B, please make these changes in pen and ink initialed by the person signing the consent to extend the statute. However, do not make any other changes on these forms. Erasures are not permitted.

We would appreciate your extending the limitation period by signing all copies of the enclosed form and returning them within 15 days from the date of this letter. A self-addressed envelope is enclosed for your convenience. Upon acceptance of the consents, we will return a copy for your records. If the enclosed forms are not signed, the Service will have no other recourse except to make an assessment based on the best information available at that time.

If you should have any questions on this matter, please contact Internal Revenue Agent Lawrence A. Zalud at 312-353-3450.

Sincerely yours,

District Director

Enclosures:
Copies of consent form
Envelope

DEFENDANT
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
266 id

SA 33a - 475
D. 4-23-71)

DEFENDANT

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

267

FPI-MI—9-24-75-50M-4417

E1455
EXHIBIT 267
August 24, 1976 New York Public
Service Commission order

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
New York on August 24, 1976

COMMISSIONERS PRESENT:

Alfred E. Kahn, Chairman
Edward P. Larkin
Carmel Carrington Marr
Harold A. Jerry, Jr.
Edward Berlin

CASE 26734 - Jamestown Telephone Corporation - Centrex Rates.

ORDER DIRECTING COMPANY TO INCREASE CENTREX RATES BY 25% OR TO SHOW CAUSE WHY THE INCREASE SHOULD NOT BE MADE

(Issued September 8, 1976)

BY THE COMMISSION:

On August 28, 1975, the Commission issued Opinion 75-20 in Case 26734, denying the application of Jamestown Telephone Corporation for a general rate increase, and directing, among other things, that:

> Jamestown is directed to file tariff leaves for Centrex service on or before September 15, 1975. Further, the company is directed to submit to our Staff a revenue requirement study for Centrex service on or before December 31, 1975 and, upon consultation with our Staff, to submit revised tariffs for Centrex service.

The date for submission of the cost study was later extended, by order of January 7, 1976, to February 29, 1976.

E1456
Exhibit 267

The tariff leaves were filed on September 11, 1975 and became effective on October 11, 1975. The required Centrex cost study was submitted on February 26, 1976.

Our Staff reviewed the study and determined, after making modifications to the company's study to remedy deficiencies Staff perceived, that Jamestown's Centrex service was substantially underpriced; Staff requested the company, as a first step toward making Centrex service compensatory, to increase Centrex rates by 25% and to take a position as to whether it should be allowed to retain the increased revenues so derived or whether it should be required to offset the added revenues through decreased rates for other services.

Jamestown and Staff met to review Staff's recommendation. By letter of July 15, 1976, the company expressed its opposition to increasing Centrex rates at this time and suggested, as an alternative, that it would propose an above-average increase for Centrex service in its next rate filing. The company expects to make a decision on whether or not to make a general rate filing within 90 days, and the company requests a delay on the Centrex question until then. Any increased Centrex rates would probably not become effective until the conclusion of the rate proceeding.

Staff believes, and we agree, that no further time should be lost in making Jamestown's Centrex service compensatory. We will therefore direct the company to file, within fifteen days, either tariff leaves designed to increase rates for Centrex service by 25% and to decrease rates for other services by an amount equal to the increased revenues derived from the Centrex increases, the decreases to be

E1457
Exhibit 267

limited to reductions in basic local exchange rates, or to demonstrate why it should not be required to make these rate adjustments.

The Commission orders:

1. Within 15 days of the issuance of this order, Jamestown Telephone Corporation is directed to:

(a) file revised tariff leaves designed to increase rates for its Centrex service by 25% and to decrease rates for its basic local exchange rates by the amount of added revenues derived from the Centrex rate increases; or,

(b) show cause why the rate adjustments described in Clause 1(a) should not be made.

2. Said tariff leaves, if filed, will become effective unless suspended by the Commission.

3. This proceeding is continued.

By the Commission,

SAMUEL R. MADISON
Secretary

(SEAL) (SIGNED)

E1458
EXHIBIT 268
November 9, 1976 New York Public
Service Commission order

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on November 9, 1976

~~PLAINTIFF~~
DEFENDANT
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
268 id

COMMISSIONERS PRESENT:

Alfred E. Kahn, Chairman
Edward Berlin, Deputy Chairman
Edward P. Larkin
Carmel Carrington Marr
Harold A. Jerry, Jr.
Anne F. Mead
Charles A. Zielinski

CASE 26734 - JAMESTOWN TELEPHONE CORPORATION - Telephone Rates

ORDER DIRECTING DIVISION OF CENTREX RATES AND WARNING SUCH SUBSCRIBERS OF POTENTIALLY LARGE FUTURE INCREASES

(Issued November 12, 1976)

BY THE COMMISSION:

On September 8, 1976, we issued an Order in this proceeding requiring Jamestown Telephone Corporation (JTC) to increase Centrex rates by 25% and to offset the added revenues by rate decreases for basic local services. In the alternative, the company was directed to show cause why these adjustments should not be made. On September 23, 1976, JTC responded. The company argues that a 25% increase at this time and in this manner is neither necessary nor desirable. The company feels that potential adverse customer reaction makes it:

> "not unlikely that the $40,000 annual revenue increase is substantially overstated. Of course, if this 25% increase in Centrex rates should result in a loss of any present Centrex customers, the increase will be self-

E1459
Exhibit 268

> defeating and the ultimate revenue deficiency for Centrex service could be greater than presently perceived by the Commission and its Staff."

JTC also argues that it should be permitted to retain any additional revenues it might derive for two reasons. First it asserts that it is not currently earning its authorized rate of return. Second, it points to an annual revenue loss of some $71,000 associated with the introduction of zoned localities.

The company has made a convincing case in favor of permitting it to keep any additional revenues resulting from increases in Centrex rates. But since the company requests that we not increase Centrex rates at this time, it is, in effect, expressing its willingness to bear the burden of these revenue deficiencies. Under these circumstances, and because of the uncertainties about the response of the Centrex market, we will not now order the 25% increases. We will direct the company, however, to split the Centrex rates into two components, an exchange access charge and an intercom charge. By so doing, it will be able to realize revenue increases of approximately 4.3% with no increase in nongovernmental subscriber billings (including taxes) and with only modest increases to governmental bodies, who are not subject to these taxes.

We are concerned, however, with the proper pricing of Centrex service in light of the apparently large amount of spare capacity in JTC's exchange switching system for both Centrex and normal exchange service. It appears to us that this capacity will remain substantially underutilized for a relatively long period of time, perhaps several years. Under these circumstances, it would be wise to encourage the use of Centrex spare capacity through the attraction of new

Centrex customers. Since the present rates appear to cover avoidable costs, we have no objection to the company taking on new customers at these price levels. But the day will come when spare capacity in the exchange switching network has been used; at that point the value, in economic terms, of the capacity used to provide Centrex will be at least as high as the revenues that could be derived from providing normal exchange service, or the costs of adding correspondingly to system capacity. At that time, if additional Centrex customers should desire to take Centrex service, the proper price for that service would be its then current cost.

Thus, we wish to make it plain that while we are willing to moderate the prices that present and future Centrex customers pay, when utilizing the existing capacity of the JTC system, we must clearly indicate our intention to price this service closer to its full costs in the future as spare capacity diminishes and other costs and market conditions change. Accordingly, we will require the company to advise each existing Centrex customer and each prospective applicant that the service is currently priced below its full costs and may remain at that level only for a short time during which the company has excess capacity; and that in the future Centrex prices may have to be raised substantially to cover the much higher incremental cost of providing the service when existing excess capacity has been exhausted. We will, of course, review Centrex rates on the occasion of any future general rate application and expect the company to make good on its promise to consider above-average increases for this service in that context. We note that the Chenango and Unadilla Telephone Corporation proposed such treatment in Case 26931 and we permitted moderated, but still above-average increases.

Exhibit 268

The Commission orders:

1. Jamestown Telephone Corporation shall file tariffs within 30 days providing for division of the current Centrex primary station rates into a separate exchange access portion and intercom portion, the sum of which shall equal the current total Centrex rate plus the applicable excise taxes thereof.

2. The company shall notify each present Centrex customer and each prospective applicant for the service of the conditions under which present prices prevail and under which future prices may differ.

By the Commission,

(SEAL) (SIGNED) SAMUEL R. MADISON
Secretary

E1462

EXHIBIT 269B

Remarks of President Lyndon B. Johnson at the signing of the Excise Tax Reduction Bill, June 21, 1965

methods of desalting can be developed.

USA 33a - 475
(ED. 4-23-71)
PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
269B id
FPI-MI—9-2 -75-50M-4417

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ernment of Saudi Arabia as it works to bring water to the arid Jidda area.

—Teams of visitors from Greece, Italy, Spain, Mexico, and other nations have visited U.S. desalting facilities and shared information with this Nation's experts in the field. And the United States recently agreed with the Soviet Union to exchange information and visits by specialists in the water-desalting field.

Much of the information about desalting provided to other nations has been based on Government and industrial work in desalting to solve domestic water supply problems:

The largest water desalting plant operating in the United States produces over a million gallons of fresh water a day, and even more efficient forms of desalting are under study. The Interior Department's Office of Saline Water has awarded 15 contracts for design studies aimed at achieving a desalting plant which would produce up to 50 million gallons of water per day.

The State of California, the city of San Diego, and the Interior Department cooperated in the construction of the Point Loma Desalting Plant, which was moved to Guantanamo Bay, Cuba, in 1964 to meet U.S. Navy water needs there.

Discussions have begun between the Interior Department and the State of California for a joint Federal-State research station in California to test components of multi-million gallon per day desalting plants. Studies by the Atomic Energy Commission and the Interior Department are inquiring into the possibility of building a nuclear desalting installation in southern California.

The knowledge developed through these programs will be available at the October symposium to all nations which need it and can benefit from work in the area of salt-water conversion.

NOTE: The First International Symposium on Water Desalination, held in Washington October 3–9, 1965, was attended by delegates from 54 countries. It was one of the major events of the International Cooperation Year.

See also Items 494, 547, 558.

326 Remarks at the Signing of the Excise Tax Reduction Bill. *June 21, 1965*

Distinguished Members of the Congress, ladies and gentlemen:

This is a bright day for all Americans.

Very shortly I will sign into law a bill that at midnight will lift $1¾ billion of onerous taxes from the American economy; that next January will ease the tax burden by a further $1½ billion; that will pay big dividends in lower prices, in more jobs, in more sales, and in more production, not just in this year of

E1463
Exhibit 269B

1965, but in 1966 and in many years to come thereafter.

So, this afternoon I want to personally congratulate the entire Congress for its very prompt and its very efficient and effective action on this matter. I asked the Congress on May 17 to reduce excise taxes. They have now completed action on that bill in exactly 32 days.

This is another shining chapter in the legislative record that a great Congress is writing—a new chapter of progress in American life.

The enactment of this bill reflects the confidence of the administration and the Congress that the benefits of excise tax reductions will be passed along to the American consumer. We can expect no less from our competitive business system.

This bill is now our third major tax action in 3 years.

The Revenue Act of 1962 introduced a bold new concept without precedent in American fiscal history—a 7-percent tax credit for business investment in new equipment. It laid the foundation for a sustained advance in business investment.

That uninterrupted advance has brought investment in equipment in the first quarter of 1965 to $38 billion, an increase of 52 percent in 4 years. And it is continuing. It is bringing rich rewards in the modernization of our entire industrial plant, in better products, in more efficient production, in lower costs, and, finally, in hundreds of thousands of new jobs for the working people of America.

Early last year, the Congress, in its wisdom, passed the Revenue Act of 1964. This second major tax reform simplified our income taxes, and made them fairer, and it reduced by $14 billion the taxes that American consumers and businesses owe on their 1965 incomes.

And this bill, which I am signing today, will eliminate an additional $4.7 billion of excise taxes.

The tax actions of 1962, and 1964, and 1965, taken together, are the mark of a vigorous new philosophy in our fiscal affairs.

Through the rigorous and never-ending pruning of waste, we have found the means for new programs already in education, in health, in urban and regional development, in the war on poverty, in large-scale strengthening of social efforts toward a better America, and in many new health programs.

Through a careful concern for private incentives, our tax system now better promotes growth, and efficiency, and opportunity.

And through a prudent control over total expenditures and total revenues, we have supplied consumers and businesses an expanding volume of purchasing power. The use of that growing purchasing power:

—has carried national output to a rate that is currently running in excess of $650 billion—compared with $500 billion in the first quarter of 1961;

—has raised wages and salaries by $76 billion in 4 years;

—has raised corporate profits after taxes by $17 billion;

—has reduced the unemployment rate from 7.1 percent in May 1961 to 4.6 percent in May 1965;

—has created more than 5½ million new jobs in these 4 years.

When we cut taxes last year, there were some who felt that lower taxes could renew an expansion already old by all past standards. They were wrong.

Today that old expansion has surpassed all peacetime records for duration. In its 52d month, it displays today the youthful vigor, the healthy balance, which promises to keep it going as far into the future, as the

E1464
Exhibit 269B

Secretary of the Treasury said only yesterday, that we can really see.

Others feared that we were squandering the Federal revenues that were needed to reduce our deficit. And they, too, were mistaken.

Our budget has really fared better than most of us had expected.

In January 1964, we estimated a deficit for fiscal year 1964 of $10 billion. It turned out to be $8.2 billion. In January 1965, we expected a deficit of $6.3 billion for fiscal year 1965. It now appears that it will be close to $3.8 billion.

In the 5-year period 1961 to 1966 we expect that Federal revenues will have increased more than in the preceding 6 years—when there were no tax cuts at all.

We have proved that a healthy budget depends on a healthy economy. And all of us—Government officials, managers, employees, and consumers—are determined to keep our economy healthy.

A healthy economy is free of inflation. Over the past 5 years our price stability has been unmatched in the industrial world. The average level of our wholesale prices in May was only 1.7 percent higher than its average in 1958.

So, this price stability has reflected both prudent monetary and fiscal policies and the responsible actions of both labor and management.

In May, the average manufacturing worker earned $4.56 more a week than he did in May of last year. And he was also earning better pensions, and better vacations, and better insurance. Yet because the gains in his union contracts stayed, on the average, within the rise in productivity, average unit labor costs in manufacturing last month were really lower than a year earlier—or lower then they were 4 years earlier.

So we are counting on management and on labor to continue to act responsibly in setting prices and wages. The Nation both expects and deserves it to act in the national interest.

And this excise tax bill will make its maximum contribution to our economic health only if businesses pass along to the consumers the full amount of the reduction in the tax. And today I urge every manufacturer, and every retailer in this country, to do just that.

I am pleased that the Congress saw fit to leave substantially unchanged my recommendations for excise tax reduction in 1965 and 1966.

The only major change the Congress made was the additional reduction in the automobile tax in later years.

I had recommended a five-point reduction in that tax, and the Congress decided to increase this to nine points.

But by postponing the additional four-point reduction, the Congress allowed time for possible modification if future developments should indicate that that would be desirable.

We in the executive branch will be carefully considering the possible constructive uses that might be made of the 1 percent automobile excise which the Congress decided to retain. This revenue could help to solve such related national problems as automobile safety, air pollution, highway beauty, and the disposal of discarded and abandoned automobiles.

If we should find that the need for these purposes—or the fiscal situation generally—should require retention of more than the 1 percent tax on automobiles, there will be ample time for the Congress then to consider our recommendations.

When there is again opportunity for tax revision, we hope, in particular, to provide further tax relief to those in our Nation who

E1465
Exhibit 269B

need it most—those taxpayers who now live in the shadow of poverty.

Tax revision is a job—as all of you congressional leaders know—that is really never finished. Our tax system must be continually geared to the needs of a healthy and a growing economy.

Such an economy provides both the foundation for our national security and for a better life for all of our citizens.

So, to the members of the Senate Finance Committee, and to the members of the House Ways and Means Committee, and to the membership of the two Houses respectively, I say to you, on behalf of a grateful people, you have done your job well.

Thank you.

NOTE: The President spoke at 4 p.m. in the East Room at the White House.

As enacted, the Excise Tax Reduction Act of 1965 is Public Law 89-44 (79 Stat. 136). For the President's message to Congress of May 17, 1965, requesting the legislation, see Item 255.

Reports to the President on the effect of the excise tax reduction on consumer prices by Gardner Ackley, Chairman of the Council of Economic Advisers, were released by the White House on July 24, August 18, September 22, and November 29 (1 Weekly Comp. Pres. Docs., pp. 4, 108, 299, 542).

327 Statement by the President on the Death of Bernard Baruch. *June 21, 1965*

BERNARD BARUCH was in the robust tradition of the philosopher-politician: one who thought and cared mightily about the course of his country but who did not shrink from actively doing what needed to be done to keep his country on course.

He loved his Nation and he lived for his Nation and that was enough to enroll him in an aristocracy of humanity.

328 Letter to the Secretary, Smithsonian Institution, on the Transfer to the Institution of the Original Corcoran Gallery of Art. *June 23, 1965*

Dear Dr. Ripley:

I am enthusiastic about your suggestion that the Smithsonian Institution take over the old U.S. Court of Claims Building and establish it as a gallery of arts, crafts and design.

No more appropriate purpose for the building could be proposed than to exhibit, in the restored gallery, examples of the ingenuity of our people and to present exhibits from other nations, whose citizens are so proud of their arts.

I would hope that tours of this Gallery might play a memorable part in the official Washington visits of foreign heads of State, offering them not only a glimpse of our art but an opportunity to enjoy the friendliness and hospitality of our people.

I have therefore approved your recommendation, and am instructing Mr. Lawson Knott, Administrator of the General Services Administration, to transfer the building to the Smithsonian Institution under existing authority. This is contingent, of course, upon your obtaining authorization for the funds necessary to renovate the building for use as a gallery.

With kindest regards,

Sincerely,

LYNDON B. JOHNSON

E1466
EXHIBIT 270A
House Report No. 433, 89th Cong.,
1st Sess. (1965)

USA 33a - 410
(ED. 4-23-71)
PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

270A id

FPI-MI—9-24-71-50M-4417

EXCISE TAX REDUCTION ACT OF 1965

For text of Act see p. 143

House Report (Ways and Means Committee) No. 433,
May 28, 1965 [To accompany H.R. 8371]

Senate Report (Finance Committee) No. 324,
June 14, 1965 [To accompany H.R. 8371]

Conference Report No. 525, June 16, 1965 [To accompany H.R. 8371)
Cong. Record Vol. 111 (1965)

DATES OF CONSIDERATION AND PASSAGE

House June 2, 17, 1965

Senate June 15, 17, 1965

All three reports are set out.

HOUSE REPORT NO. 433

THE Committee on Ways and Means, to whom was referred the bill (H.R. 8371) to reduce excise taxes, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. GENERAL STATEMENT AND SUMMARY

H.R. 8371, the excise tax reduction bill of 1965, represents a comprehensive overhaul of our Federal excise tax structure. The present excise taxes, for the most part, were initially levied as emergency revenue-raising measures at the time of the Korean war, or World War II, or the depression of the 1930's. As a result, they were not developed on any systematic basis and are often discriminatory in their application to the taxed industries or to purchasers of the taxed products. Your committee bill, either in the current fiscal year, or over the next 3 subsequent years, removes entirely this miscellany of selective excise taxes except those designed to serve certain specific purposes.

Your committee's bill follows closely the excise tax recommendations of the President's message of May 17, with one exception. This exception was the decision of the committee to repeal, gradually over a period of 4 years, the passenger automobile tax instead of merely reducing it to 5 percent. This difference will have a significant budget impact only after the fiscal year 1967.

The excise taxes which are retained fall in one of three categories. Those remaining will, in effect, constitute user charges (where the tax paid is in effect a charge based on the use of a given governmental service), regulatory taxes (such as those on marihuana, opium, and wagering), or sumptuary taxes (namely, those on alcohol and tobacco products). The bill only incidentally deals with highway and airway user taxes. Your committee has reserved the subject of these user taxes and the proposed inland waterway user taxes for future consideration. The bill, by removing all other excise taxes, substantially improves the fairness of the Federal ex-

E1467
Exhibit 270A

cise tax structure and simplifies the tax law, as well as contributes to the economic well-being of the Nation.

This bill provides for a tax reduction effective July 1, 1965, which, when fully effective, will result in a revenue reduction of $1.75 billion. A further reduction is provided for next January 1, which, when fully effective, will decrease taxes by an additional $1.7 billion. These two reductions, taken together, will amount to about $3.4 billion. Further reductions are scheduled to occur in 1967, 1968, and 1969. The additional reductions in these years will amount to approximately $1.4 billion, raising the total excise tax reduction, when fully effective, to $4.8 billion.

The President did not transmit his specific recommendations on excise taxes until your committee was ready to act. This was done to permit your committee to act with dispatch in its consideration of these excise tax reductions in order to interfere as little as possible with those consumer purchases of the taxed items which might be adversely affected. The President recommended that refunds be provided for consumers retroactive to May 15 in the case of passenger cars and air conditioners because of special problems in these cases. Your committee accepted this recommendation. In addition, floor stock refunds have been provided in most cases with respect to wholesalers' and retailers' inventories of items subject to manufacturers' excise taxes.

The various taxes reduced or eliminated under your committee's bill can be summarized as follows:

E1468
Exhibit 270A

Tax	Existing rate	Committee action and effective date	Estimated annual revenue loss when fully effective (millions)
A. Retailers' excise taxes:			
1. Jewelry	10% of retail price	Repeal, July 1, 1965	$220
2. Furs	10% of retail price	Repeal, July 1, 1965	30
3. Toilet preparations	10% of retail price	Repeal, July 1, 1965	210
4. Luggage, handbags, etc.	10% of retail price	Repeal, July 1, 1965	90
B. Manufacturers' excise taxes:			
1. Passenger automobiles	10% of mfr. price	Reduce to 7%, July 1, 1965[1, 2]; reduce to 6%, Jan. 1, 1966[2]; reduce to 4%, Jan. 1, 1967[2]; reduce to 2%, Jan. 1, 1968[2]; repeal, Jan. 1, 1969.	1,900
2. Automobile parts and accessories (except truck parts).	8% of mfr. price	Extend 8% rate to Jan. 1, 1966, and then repeal, Jan. 1, 1966.[2, 3, 4]	236
3. Lubricating and cutting oil:			
(a) Cutting oil	3¢ per gal	Repeal, Jan. 1, 1966.[2]	28
(b) Lubricating oil	6¢ per gal	Refund tax for oil not used in highway motor vehicles, beginning Jan. 1, 1966.[4]	
4. Refrigerators, freezers, and air-conditioning units:			
(a) Refrigerators and freezers	5% of mfr. price	Repeal, July 1, 1965.[2]	41
(b) Self-contained air-conditioning units	10% of mfr. price	Repeal, July 1, 1965.[1, 2]	34
5. Electric, gas, and oil appliances	5% of mfr. price	Repeal, July 1, 1965[2]	85
6. Electric light bulbs	10% of mfr. price	Repeal, Jan. 1, 1966[2]	45

E1469
Exhibit 270A

Tax	Existing rate	Committee action and effective date	Estimated annual revenue loss when fully effective (millions)
B. Manufacturers' excise taxes:—Continued			
7. Radio and television sets, phonographs, records, etc.	10% of mfr. price	Repeal, July 1, 1965[2]	255
8. Musical instruments	10% of mfr. price	Repeal, July 1, 1965[2]	27
9. Sporting goods, except fishing equipment.	10% of mfr. price	Repeal, July 1, 1965	25
10. Photographic equipment:			
(a) Cameras, lenses, film	10% of mfr. price	Repeal, July 1, 1965[2]	$10
(b) Projectors	5% of mfr. price	Repeal, July 1, 1965[2]	
11. Business machines	10% of mfr. price	Repeal, July 1, 1965[2]	75
12. Pens, mechanical pencils, and lighters:			
(a) Pens and pencils	10% of mfr. price	Repeal, July 1, 1965	11
(b) Lighters	10¢ each, not to exceed 10% of mfr. price.	Repeal, July 1, 1965	
13. Matches:			
(a) Plain	2¢ per 1,000, not to exceed 10% of mfr. price.	Repeal, July 1, 1965	4
(b) Fancy	5½¢ per 1,000	Repeal, July 1, 1965	
C. Facilities and services:			
1. Admissions and cabarets:			
(a) General admissions	1¢ for each 10¢ in excess of $1	Repeal, noon, Dec. 31, 1965	55
(b) Race tracks	1¢ for each 5¢ of full price	Repeal, noon, Dec. 31, 1965	
(c) Cabarets	10% of bill	Repeal, noon, Dec. 31, 1965	47
2. Club dues	20% of annual dues, if in excess of $10.	Repeal, Jan. 1, 1966	85

E1470
Exhibit 270A

EXCISE TAX REDUCTION ACT

Tax	Existing rate	Committee action and effective date	Estimated annual revenue loss when fully effective (millions)
C. Facilities and services:—Continued			
3. Communications:			
(a) Local and toll telephone service and teletypewriter service.	10% of amount billed	Reduce to 3%, Jan. 1, 1966;[3] Reduce to 2%, Jan. 1, 1967; Reduce to 1%, Jan. 1, 1968; Repeal, Jan. 1, 1969.	913
(b) Private communications services.	10% of amount billed	Repeal, Jan. 1, 1966	130
(c) Telegraph service	10% of amount billed	Repeal, Jan. 1, 1966	17
(d) Wire and equipment service ..	8% of amount billed	Repeal, Jan. 1, 1966	15
4. Transportation of persons by air	5% of amount paid	Extend rate on permanent basis	(5)
5. Safe deposit boxes	10% of amount paid	Repeal, July 1, 1965	7
D. Miscellaneous taxes:			
1. Documentary stamp taxes:			
(a) Bond and stock issues	....	Repeal, Jan. 1, 1966	195
(i) Stock, except mutual funds.	10¢ per $100 of value.		
(ii) Mutual fund shares ..	4¢ per $100 of value.		
(iii) Bonds	11¢ per $100 of value.		
(b) Bond and stock transfers	....	Repeal, Jan. 1, 1966	
(i) Stock	4¢ per $100 of value but no more than 8¢ per share or less than 4¢ per sale.		
(ii) Bonds	5¢ per $100 of value.		
(c) Conveyances	55¢ per $100 of value	Repeal, Jan. 1, 1966	

E1471
Exhibit 270A

Tax	Existing rate	Committee action and effective date	Estimated annual revenue loss when fully effective (millions)
D. Miscellaneous taxes:—Continued			
2. Playing cards	13¢ per pack	Repeal, July 1, 1965	11
3. Coin-operated amusement devices (not including gaming devices).	$10 per year	Repeal, July 1, 1965	6
4. Bowling alleys, billiard and pool table	$20 per year	Repeal, July 1, 1965	7
E. Alcohol and tobacco taxes:			
1. Alcoholic beverages:			
(a) Distilled spirits	$10.50 per proof gal	Extend present rate on permanent basis.	(5)
(b) Beer	$9 per barrel	Extend present rate on permanent basis.	(5)
(c) Wines	Various rates	Extend present rates on permanent basis.	(5)
2. Tobacco:			
(a) Cigarettes	8¢ per pack	Extend present rate on permanent basis.	(5)

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[1] Provision is made for refunds to consumers who purchased item after May 14, 1965, and before July 1, 1965.

[2] Provision is made for floor stock refunds.

[3] The existing rate is extended from June 30, 1965, through Dec. 31, 1965. In the case of the telephone taxes only the tax on general (local) telephone service was scheduled to expire and is extended to Dec. 31, 1965.

[4] Remaining revenues allocated to highway trust fund.

[5] The bill forestalls rate reductions which would otherwise occur under present law on July 1, 1965. In the case of transportation of persons by air, the revenue loss which is prevented is $140,000,000; in the case of distilled spirits, it is $203,500,000; in the case of beer, it is $101,000,000; in the case of wines, it is $12,000,000; and in the case of cigarettes, it is $202,000,000.

E1472
Exhibit 270A

EXCISE TAX REDUCTION ACT

II. REVENUE ESTIMATES

The revenue effect of your committee's bill is summarized in table 1, below. The estimates presented in this and the subsequent tables are based on expected 1966 income levels and do not take into account any "feedback" to revenues as a result of the impact of the bill on the economy.

Table 1 indicates that the bill can be expected to reduce Federal revenues, at calendar 1966 income levels, by $4.8 billion when its provisions become fully effective. Administrative budget receipts (when compared to those under present law) will be reduced by an additional $70 million as a result of certain transfers to the highway trust fund provided by this bill. The latter change will affect Government accounting totals but will not affect actual cash collections from the public. Not shown separately in table 1 is the effect of the removal of July 1, 1965, termination dates for certain excise tax rates currently in force. The revenue effect of these excise tax rate extensions is shown in table 4.

TABLE 1.—*Summary of full effect of H.R. 8371 on administrative budget revenues, estimated on the basis of 1966 levels of income*

[In millions]

Excise tax collections under rates and provisions now in effect [1]		$15,356
Transfer to highway trust fund under provisions now in effect		3,939
Excise tax collections, administrative budget, under existing rates and provisions		11,417
Tax reductions to take effect in fiscal 1966: [2]		
To take effect July 1, 1965	$1,748	
To take effect Jan. 1, 1966	1,676	
Tax reductions to take effect in 1967, 1968, and 1969 [3]	1,414	
Total effect of tax reductions	4,838	
Additional transfers to the highway trust fund	70	
		4,908
Excise tax collections, administrative budget, after excise tax reductions and additions to highway trust fund provided by H.R. 8371		6,509

Table 2 shows that excise tax reductions and repeals scheduled in your committee's bill for July 1, 1965, involve a total reduction in receipts of $1.75 billion on an annual rate basis. Because of delays in collections, however, the July 1, 1965, reductions will reduce fiscal 1966 revenues by an estimated $1,458 million.

Table 2 also indicates that the reductions scheduled for January 1, 1966, involve an additional reduction in receipts of $1.7 billion on an annual rate basis. The reduction in fiscal 1966 receipts expected to stem from this second series of reductions is only $517 million because the reductions will be in effect only half the year and because of anticipated lags in collections.

Thus the full year effect of reductions which will go into effect on July 1, 1965, and January 1, 1966, is $3.4 billion while the impact of these re-

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[1] See table 4 for revenue effect of removal of termination dates for certain taxes, as provided in H.R. 8371.
[2] See table 2 for details.
[3] See table 3 for details.

E1473
Exhibit 270A

ductions on actual fiscal 1966 revenues is limited to a reduction of slightly less than $2 billion.

Administrative budget receipts in fiscal 1966 will be reduced as a result of two other factors not reflected in table 2. It is expected that the floor stock refunds authorized in connection with excise taxes to be eliminated or reduced on July 1, 1965, will involve tax refunds in the fiscal year 1966 of $170 million. Administrative budget receipts during the fiscal year will also be reduced by an estimated $24 million as a result of additional transfers to the highway trust fund. The latter will not affect actual cash collections from the public. These additional factors raise the estimated impact of the bill on fiscal 1966 administrative budget receipts to $2,169 million.

The estimates presented here of the effect of this bill on receipts in the fiscal year 1966 also do not take into account any increase in general revenues which might result from an increase in the level of economic activity generated by tax reductions. The Treasury has estimated that such effects will increase fiscal 1966 revenues from all Federal taxes by $391 million. Thus the Treasury estimates that the net effect of H.R. 8371 on fiscal 1966 administrative budget receipts will be a reduction of $1,778 million, including the effect on administrative budget receipts of additional transfers to the highway trust fund account. The Treasury estimates that the "feedback" effect will grow from the $391 million in the fiscal year 1966 to $1,483 million in the fiscal year 1967, reducing the revenue loss for that y[illegible] to $2,196 million.

E1474
Exhibit 270A

EXCISE TAX REDUCTION ACT

TABLE 2.—*Tax reduction under those provisions of H.R. 8371 to take effect in fiscal year 1966*

[In millions of dollars]

	Full year revenue loss	Reduction in tax collections, fiscal year 1966
I. Reductions to take effect July 1, 1965:		
1. Repeal retail excise taxes:		
Jewelry	220	183
Furs	30	25
Toilet preparations	210	175
Luggage	90	75
Subtotal	550	458
2. Repeal following manufacturers taxes:		
Business machines	75	62
Sporting goods, except fishing equipment	25	21
Phonograph records	30	25
Musical instruments	27	22
Television sets	135	112
Radios and phonographs	90	75
Photographic equipment	40	33
Refrigerators	34	28
Freezers	7	6
Air conditioners	34	28
Electric, gas, and oil appliances	85	71
Pens and pencils	8	7
Lighters	3	2
Matches	4	3
Playing cards	11	11
Subtotal	608	506
3. Other repeals:		
Coin-operated amusement devices	6	6
Bowling alleys, billiard and pool tables	7	7
Safe deposit boxes	7	6
Subtotal	20	19
4. Rate reduction: Passenger automobiles, 3 points	570	475
Subtotal	1,748	1,458
II. Reductions to take effect Jan. 1, 1966:		
1. Repeal taxes in admissions group:		
General admissions	55	18
Cabarets	47	16
Club dues	85	28
Subtotal	187	62
2. Communications taxes:		
Repeal private communication services	130	32
Repeal telegraph service	17	4
Repeal wire and equipment service	15	4
Reduce general and long-distance services, 7 points	639	160
Subtotal	801	200

E1475
Exhibit 270A

Table 2.—*Tax reduction under those provisions of H.R. 8371 to take effect in fiscal year 1966*—Continued

[In millions of dollars]

	Full year revenue loss	Reduction in tax collections, fiscal year 1966
3. Repeal of other taxes:		
Automobile parts and accessories, except truck parts	230	77
Lubricating oil (except highway use)	28	2
Electric light bulbs	45	15
Documentary stamps (except foreign insurance policies)	195	98
Subtotal	498	192
4. Other rate reductions: Passenger automobiles, 1 point	190	63
Subtotal	1,676	517
Total, fiscal year 1966 program	3,424	1,975

The estimated full year effect of reductions in the rates of the manufacturers' excise on passenger automobiles and the tax on communications services scheduled for the years after 1966 is shown in table 3. In the case of both taxes, the full effect will be achieved in three stages ending on January 1, 1969, with the complete elimination of the taxes.

Table 3.—*Tax reduction under those provisions of H.R. 8371 which take effect after fiscal year 1966*

	Total cumulative effect (millions)
Reductions to take effect Jan. 1, 1967, 1968, and 1969:	
1. Rate on passenger automobiles, 2 points each Jan. 1	$1,140
2. Rate on telephone services, 1 point each Jan. 1	274
Total	1,414

Table 4 contains estimates of the revenue effect of provisions in H.R. 8371 which strike out certain provisions of present law which would reduce or eliminate selected excise tax rates on July 1, 1965. Shown in the table are the effects of extending existing tax rates on alcoholic beverages, cigarettes, and transportation of persons by air. Not shown in the table are the revenue effects of extending the present tax rate on automobile parts and accessories and the present tax on communications services from July 1, 1965, through December 31, 1965.

E1476
Exhibit 270A

TABLE 4.—*Revenue effect of removal of termination dates for certain excise taxes*

[In millions of dollars]

	Full year gain	Gain in fiscal year 1966[1]
Alcohol:		
Distilled spirits	203	330
Beer	104	112
Wines	12	18
Total, alcohol	319	460
Tobacco, cigarettes (small)	282	283
Transportation of persons by air	140	117
Total	721	860

[1] Gain consists of increased collections and elimination of floor stock refunds.

III. REASONS FOR THE BILL

Your committee's bill constitutes a major revision of the Federal excise tax system. This bill calls for the repeal outright, or on a scheduled basis, of a large number of excise taxes. In large part, these taxes were imposed as emergency wartime measures (either in World War II or the Korean war) or as an emergency method of raising revenues at the time of the depression of the 1930's.

By eliminating these taxes either outright or on a scheduled basis, your committee will leave a tax system in which all the remaining excise taxes fall in one of three categories:

1. Excises which are levied on the benefit principle. Under this principle those who benefit from particular Government services help to pay the cost of the services by paying charges (in the form of excises) which to some extent measure their use of the services. Included in this category are such taxes as those on gasoline, tires, and tubes, and other revenues allocated to the highway trust fund. Also included in this category are such taxes as those on fishing equipment and firearms, which are, in effect, earmarked for special purposes.

2. Regulatory taxes, such as those on marihuana, opium, white phosphorus matches, and gambling.

3. Sumptuary taxes, such as those on alcohol and tobacco.

The elimination which this bill provides for, of all other excise taxes (here called selective excises) will improve the fairness of the tax system and substantially simplify the administration of the tax law, as well as contribute to the economic well-being of the Nation. The present selective system of excise taxes places discriminatory tax burdens on the consumers and producers of the taxed products. Most of these taxes were imposed in time of national emergency to raise needed revenues and in many cases to stem inflationary pressures and divert essential resources to defense-related uses. With these emergencies past, the selective taxes are now the source of undesirable discrimination. Consumers of the taxed products where the tax is passed forward must pay a premium, over and above the market price, for the taxed items, which consumers of untaxed items do

E1477
Exhibit 270A

not pay. These selective excise taxes tend to reduce sales and therefore reduce incomes and jobs in the industries which produce the taxed goods. In these ways selective excise taxation results in arbitrary and undesirable distortions in the allocation of resources and in this manner interferes with the free play of our competitive market.

Many of these excises also now are objectionable in that they are generally regressive in their impact, absorbing a larger share of the income of low-income persons than of those with higher incomes. This stems from the fact that low-income families find it necessary to spend a higher proportion of their incomes for consumption than those with larger incomes. Moreover, the present system of manufacturers' excises tends to impose heavier tax burdens on newly formed families which must invest heavily in purchases of appliances and other taxed commodities.

Another undesirable aspect of the selective excise taxes is that many of them are imposed on items used in business. Such taxes place arbitrary tax burdens on firms depending on their requirements for taxed items. Moreover, these business cost taxes may discourage the use of the most advanced and efficient machines or other products, and their inclusion in costs of the business introduce price distortions in markets for final goods and services. Since these costs tend to be reflected in the prices of final or end consumer products, they probably in their impact are also regressive.

In many instances the selective excises also create heavy compliance burdens. The imposition of Federal excises on a variety of relatively inexpensive commodities burdens retailers and manufacturers with compliance duties which are often disproportionately heavy, viewed in relation to the revenues produced by the taxes. Moreover, this burden tends to be heavier for smaller businesses. Removal of this burden, a hidden cost of taxation, will free businessmen to spend more time managing their own affairs.

The excise tax reduction provided in your committee's bill does not postpone but, rather, promotes continued progress toward a balanced budget at high levels of employment and output. This is true because the excise tax cut will help sustain the current upswing in economic activity. This upswing has already lasted over 51 months, longer than any other period of continued uninterrupted peacetime economic expansion.

In testimony before your committee, the Secretary of the Treasury indicated that as a result of expenditure control and substantial increases in revenue collections, estimates of the Federal budget deficit in the fiscal years 1965 and 1966 have been substantially reduced below the figures estimated in the President's budget message released in January. The current administration estimate for the fiscal year 1965 is for a deficit of $4.4 billion, nearly $2 billion below the January estimate.

The reduction is accounted for by both reduced expenditures and increased revenues. Lower expenditure estimates testify to the administration's determination to restrain expenditures.

E1478
Exhibit 270A

EXCISE TAX REDUCTION ACT

A letter received from the President makes it clear that the President intends to continue to hold Federal expenditures to the lowest reasonable levels. The letter received from the President is as follows:

THE WHITE HOUSE,
Washington, May 25, 1965.

Hon. WILBUR MILLS
Chairman, Ways and Means Committee.
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: I am highly gratified at the prompt action of the House Ways and Means Committee in voting favorably on the excise tax bill today. I want to commend you and the members of your committee for this action. Seldom in our history has a congressional committee acted so swiftly on tax legislation.

I also understand that you intend to take up the proposed legislation to extend the debt limit in the Ways and Means Committee tomorrow. This promptness is also commendable. In connection with both the committee action on the excise tax reduction and the need to extend the debt limit I would like to make clear once again my strong determination to hold Federal expenditures to the lowest reasonable levels.

I believe this administration has achieved a satisfactory record in that area. In my budgets for fiscal years 1965 and 1966, the average expenditure increase has been held to $1 billion—one-third of the average annual increase for the previous 10 years. In addition, I recently announced a $500 million reduction in estimated expenditures for the current fiscal year.

The only substantial change the Ways and Means Committee made in the excise tax reduction program I recommended was in the area of the automobile tax. I had recommended that this 10-percent tax be reduced 3 percentage points on July 1, 1965, an additional point January 1, 1966, and an additional point January 1, 1967, leaving a 5-percent tax in effect.

My reasons for recommending retention of half of the automobile tax were that this would retain revenues of roughly $1 billion a year to the Government, revenues which pose no problem for the industry.

The Ways and Means Committee has voted to remove the entire automobile tax by reducing the tax an additional percentage point on January 1, 1967, and making further two-point reductions on January 1, 1968, and January 1, 1969.

While I prefer the program I recommended, I feel that if the entire tax is to be removed, the Ways and Means Committee program represents a prudent way of doing so.

This addition to the program I recommended, together with several minor changes, will leave the budget for fiscal 1966 unchanged. The committee action will reduce revenues for fiscal 1967 by about $100 million.

Thus the changes made by the Ways and Means Committee will leave the budget impact and fiscal stimulus of the tax reduction program I recommended basically the same for fiscal years 1966 and 1967.

Congressional approval of the excise tax reduction and the debt limit extension will reenforce my determination to hold Federal spending to a necessary minimum. The Federal budget should continue to be one which will allow us to save where we can in order to spend where we must.

Sincerely,

LYNDON B. JOHNSON.

The increase in estimated revenues testifies to the strength of the economy and to the success of the Revenue Act of 1964. The excise tax reduction is expected to be an important factor in continuing this strength of the economy in the future. The growth of the economy is expected to

E1479
Exhibit 270A

raise Federal revenues in the fiscal year 1965 by $3.1 billion above the level in the fiscal year 1964, even though individual and corporate tax liabilities were substantially reduced by the Revenue Act of 1964.

With regard to the fiscal year 1966, the administration now estimates that revenues will be $1.6 billion above the January estimate. That estimate took account of an excise tax reduction of $1.75 billion, of which $1.5 billion was expected to be reflected in fiscal year 1966 revenues. Your committee's bill, taking into account both the July 1, 1965, reductions and the January 1, 1966, reductions, is expected to reduce revenues by $3.4 billion, of which an estimated $2.2 billion (including refunds) will be reflected in lower fiscal year 1966 receipts. The bill, therefore, decreases revenues by $0.6 billion below the January forecast.[1] Thus, in view of the $1.6 billion revenue estimate increase, even with the larger cut now proposed, the deficit in the Federal budget currently is expected to be about $1 billion smaller than the figure forecast in January.

The $1.75 billion tax reduction provided by this bill effective this July 1 will help to insure that the growth in the rate of economic activity does not fall short of growth in the size of the productive capacity of the Nation, and in the size of the labor force. The further $1.7 billion excise tax reduction effective next January 1, 1966, is particularly desirable as an aid in offsetting any possible adverse effect from other scheduled tax rate increases. This second and the later stages of tax reduction scheduled in the bill will help to sustain the rate of economic expansion required to prevent a rise in the level of unemployment.

It is expected that for the most part, the excise tax reduction will result in increased general consumer spending in response to price reductions made on the products now taxed. Much of this increased spending may well be for products other than those taxed. In addition, where businesses do not pass the reductions along to consumers, (as, for example, where they had previously absorbed the tax) it is believed this will provide business firms with both the means and the incentive to modernize and expand production capacity.

Present unused productive capacity and unemployed members of the labor force mean that your bill is unlikely to have an inflationary impact. Inflationary pressures have not developed significantly as a consequence of the Revenue Act of 1964 and the tax reduction provided by this bill is far less than the amount provided by that act. Moreover, the reductions provided by this bill will exert direct pressure to lower prices on a broad range of important consumer goods, including automobiles and major appliances.

As previously noted, your committee's bill will restrict continuing Federal excises to use taxes in the nature of benefit charges (primarily those devoted to the highway trust fund), sumptuary excises on alcoholic beverages and tobacco products, and items taxed for regulatory purposes. The considerations which justify eliminating the selective excise taxes as provided by this bill do not apply to the taxes which fall into these categories.

Taxes such as those on gasoline, trucks, transportation of persons by air, firearms, shells and cartridges, and fishing equipment are user taxes. They serve to assess to the users of, and, therefore, the primary beneficiaries of, certain Government facilities and programs a part of the cost to the

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[1] This takes into account an administration estimate of about a $100 million "feed back" effect on revenues.

E1480
Exhibit 270A

taxpaying public of providing the facilities. For example, those who use the public highways benefit from the Government's contribution to highway construction. A tax on gasoline taxes users of the highways in rough proportion to their use of the service. The taxes which support the highway trust fund cannot be repealed or reduced without seriously disrupting the Federal highway construction program. These taxes are scheduled for repeal (or restoration to former levels) when that program is completed.

Alcoholic beverages and tobacco products, which provide substantial amounts of revenue to the Federal Treasury, have long been regarded as proper subjects for the imposition of sumptuary excises. The fact that taxes interfere with market choices in the case of these items has traditionally been considered not undesirable. Your committee has continued these sumptuary excises intact.

The taxes which are imposed primarily for regulatory purposes, such as the taxes on marihuana and opium, coin-operated gaming devices, and wagering, have been continued.

IV. REASONS FOR LIMITING THE TYPES OF CONSUMER REFUNDS PERMITTED UNDER THE BILL

The committee recognized that problems might arise in some cases with respect to delays of consumer purchases during the interval between the time of the announcement of the proposed elimination of the various excise taxes and the effective date of the tax reductions. It was because of these problems that the administration withheld the announcement until the time remaining before the effective date would be the minimal period consistent with providing Congress with an adequate time to consider and take appropriate action on the proposed excise tax reductions and repeals. Thus, the message detailing the various reductions was sent to Congress on May 17 and the excise tax reductions with respect to which problems may arise are scheduled to become effective on July 1, an interval of slightly less than a month and a half. It should be noted that floor stock refunds are provided in almost all cases with respect to the inventories retailers and wholesale dealers have on hand at the end of business on June 30. Therefore, there should be no reluctance on the part of retailers and other dealers to maintain normal stocks of the taxed items through this transition period.

Most of the concern with respect to the transition period for the various excise taxes arises from the fear that consumers in some cases may not buy the taxed items during the transition period but instead may hold off their purchases until after the tax reductions or eliminations become effective on July 1. It is recognized that in some cases there may be deferrals in consumer purchases during this transition period. It should be emphasized however that in most cases these will be merely deferrals in sales and not lost sales. To the exent this deferral occurs, sales will be somewhat lower during the latter part of May and during June than otherwise would be expected. However, this should more than be made up by higher sales in July and August. In fact it is anticipated that the attention concentrated on these items because of the tax reductions or eliminations will stimulate interest in them to such an extent as to lead to substantially larger sales during July and August, probably bringing the receipts for the 2 or 3 months before the reduction and the 2 or 3 months after the reduction to

E1481
Exhibit 270A

a total above that which otherwise could be expected from sales of these items.

Because it is believed that in most of the cases involving adjustments, sales will merely be deferred—and not in any real sense canceled—and because refunds to consumers involve a substantial administrative burden both for the manufacturers and dealers of the taxed products as well as for the Government, consumer refunds generally are not to be made available with respect to the taxed items. The administrative problems for the manufacturers, dealers, and Government in connection with such refunds are described below. Departures are made from this general rule of "no consumer refunds," only in two cases, where it is believed that there are good reasons for following the President's proposals for consumer refunds effective as of the date he announced his proposals. In this connection it might be noted that consumer refunds were not provided in the Excise Tax Reduction Act of 1954.

Consumer refunds are made available for self-contained air-conditioning units because a large proportion, about 40 percent, of yearly retail sales occur during the months of May and June. Moreover, in the case of air-conditioning units, marketing information suggests that, if the sales do not occur during this period, purchases are likely to be deferred, not merely to July or August, but rather to the next full season. Thus, in this case it appears that there would be not merely a temporary deferral of sales if consumer refunds were not provided, but an actual loss in sales for at least the season. A canvass of the various other articles on which tax is being repealed discloses no other general category of items where such a large percentage of the product sales occurs during the last half of May and the month of June. Most of the other taxed items have their largest sales around the Christmas season.

In the case of the 3-percentage-point reduction for passenger cars on July 1, it is believed that consumer refunds are desirable because the tax per passenger car is large. In the case of the average car a 3-percentage-point reduction amounts to approximately $70 in tax. For more expensive cars the tax can be much larger. Thus the tax reduction in this case is large enough so that a significant number of prospective purchasers, in the absence of consumer refunds, might delay their purchases until July. Because of the significance of auto sales in the total economy such a deferral in sales might have a significant effect on economic conditions during this period of time.

Since the repeal or reduction of any specific tax cannot become a certainty until the tax reduction bill is finally passed by Congress and signed by the President, a consumer refund can be made available as of the announcement date only on the basis of initially imposing the tax and then after passage of the act providing a refund for the tax previously paid. Moreover, in the case of the various manufacturers' excise taxes it is believed that it would be necessary, in order to have some check on the validity of the claims, to provide these refunds through the procedure of tracing the sales from the consumer back to the retailer then back through the wholesaler, and from him back to the manufacturer. Such a procedure, if refunds were to be extended across the board, would involve much paperwork on hundreds of items, and the verification of these individual sales would be burdensome. Only in this way, however, could the Internal

E1482
Exhibit 270A

Revenue Service make sure that the refund claimed did not exceed the tax paid. The processing and consolidating of millions of small claims therefore would have to be done by the manufacturers and retailers. This would be especially burdensome for those manufacturers who sell many different types of taxed items.

Because for the most part the tax refunds involved would be small and because they would represent the bulk of the work for the manufacturers, it is frequently proposed that consumer refunds be made available only in those cases where the tax involved exceeds some minimum amount, such as $10. However, if small refunds are to be excluded the refunds allowed would actually cover only a relatively few items. For example, in the case of appliances (which are subject to a 5-percent manufacturers tax) the tax would not reach $10 until the retail price is from about $285 to $400 (assuming markups ranging from 30 percent to 50 percent of the retail price).[2] For the other manufacturers taxes which are at a 10-percent level, a $10 refund would be reached only in the case of an article selling at retail for $145 to $200 or more (again assuming a 30- to 50-percent markup).

If some cutoff point on refunds is used, such as $10, it becomes questionable whether the first $10 of refunds should be allowed in any case. To do so would result in an arbitrary line being drawn between those items which qualify for full refunds and those which qualify for no refunds at all This could cause consumers to decide on one model of a particular article rather than another merely on the grounds that a refund is available for one and not the other. However, if no refund is to be allowed with respect to the first $10, then for an actual refund to amount to $10 would require the price of the article in the case of a particular article rather than another merely on the grounds that a 5-percent tax to be $570 to $800 (assuming a 30- to 50-percent markup) and the price of an article subject to a 10-percent tax to be $285 to $400. The number of taxed articles meeting this test is limited to the top lines of a small number of the taxed articles.

It is also anticipated that if consumer refunds were to be provided where the tax is based upon the manufacturer's selling price, there would be considerable confusion on the part of the consumers. Many of them would expect the refund to be based upon the retail price, the only price with which they are acquainted. Thus, the retail dealers would be presented with problems in describing the difference between the retail and the manufacturer's price. This would be further complicated by the fact that manufacturers sell at different prices to different wholesalers (or in certain cases use constructive prices for tax purposes) and thus even in the case of the same types of articles the refunds might vary in size from retailer to retailer.

V. GENERAL EXPLANATION

A. RETAILERS' EXCISE TAXES

1. Jewelry and related items (sec. 101 of the bill and sec. 4001 of the code)

Under present law a tax equivalent to 10 percent of the retail sales price is imposed on jewelry, various precious and semiprecious stones, watches, clocks, sterling silverware, silver-plated hollowware, and certain other items. The full list of items subject to tax is shown in table 5.

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[2] Markups vary from product to product. However, most are believed to be in the 30 percent to 50 percent range.

E1483
Exhibit 270A

TABLE 5.—*Items subject to 10-percent jewelry, etc., tax*

- All articles commonly or commercially known as jewelry, whether real or imitation
- The following stones, by whatever name called, whether real or synthetic:
  - Amber
  - Beryl of the following types:
    - Aquamarine
    - Emerald
    - Golden beryl
    - Heliodor
    - Morganite
  - Chrysoberyl of the following types:
    - Alexandrite
    - Cat's eye
    - Chrysolite
  - Corundum of the following types:
    - Ruby
    - Sapphire
  - Diamond
  - Feldspar of the following type:
    - Moonstone
  - Garnet
  - Jadeite (jade)
  - Jet
  - Lapis lazuli
  - Nephrite (jade)
  - Opal
  - Pearls (natural and cultured)
  - Peridot
  - Quartz of the following types:
    - Amethyst
    - Bloodstone
    - Citrine
    - Moss agate
    - Onyx
    - Sardonyx
    - Tiger-eye
  - Spinel
  - Topaz
  - Tourmaline
  - Turquoise
  - Zircon
- Articles made of, or ornamented, mounted, or fitted with precious metals or imitations thereof
- Watches
- Clocks
- Cases and movements for watches and clocks
- Gold, gold-plated, silver, or sterling flatware or hollowware and silver-plated hollowware
- Opera glasses
- Lorgnettes
- Marine glasses
- Field glasses
- Binoculars

The retail excise tax on jewelry and related items is a burdensome tax on retailers and produces only $220 million of revenue annually. In all, it is believed that 100,000 to 200,000 retail outlets are involved in the collection of this tax. The compliance burden imposed by the tax is often a severe one in an industry which contains a large number of small, one-family concerns. Moreover, there are difficult problems in determining the actual sales price in the auditing of these returns.

Your committee's bill repeals the retail excise tax on jewelry effective July 1, 1965.

It is estimated that this provision will reduce revenues by $220 million in a full year.

2. Furs (sec. 101 of the bill and sec. 4011 of the code)

A tax equivalent to 10 percent of the retail sales price is currently imposed on articles made of fur on the hide or pelt and on articles of which fur is the component material of chief value.

As in the case of jewelry, the administrative cost of compliance is high relative to the revenue collected from the retail excise on furs. In addition, the tax has been a depressant on the fur industry, which in recent years has not fully shared in the general prosperity.

Your committee's bill repeals the retailers' excise tax on furs effective July 1, 1965.

It is estimated that the provision will reduce revenues by $30 million in a full year.

E1484
Exhibit 270A

3. Toilet preparations (sec. 101 of the bill and sec. 4021 of the code)

A tax equivalent to 10 percent of the retail sales price is currently imposed on various types of toilet preparations. These are more fully described in table 6.

TABLE 6.—*Articles subject to 10-percent tax on toilet preparations*

Perfume
Essences
Extracts
Toilet waters
Cosmetics
Petroleum jellies
Hair oils
Pomades
Hair dressings
Hair restoratives
Hair dyes
Toilet powders

Any other similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

Many of the items currently taxed as toilet preparations are so widely used that the retailers' excise tax has a substantially regressive impact. Persons with low incomes, therefore, pay a larger portion of their incomes for this tax than do those with larger incomes. Moreover, the tax entails high compliance and administration costs. This is attributable to the large number of retail outlets handling these taxed products and to the difficulties in distinguishing between taxable and nontaxable sales in the ordinary drugstore.

Your committee's bill repeals the tax on toilet preparations effective July 1, 1965.

It is estimated that this tax will reduce revenues by $210 million in a full year.

4. Luggage, handbags, etc. (sec. 101 of the bill and sec. 4031 of the code)

Present law imposes a tax equivalent to 10 percent of the retail sales price on ladies' handbags and many different forms of luggage. The items subject to tax are set forth in table 7.

TABLE 7.—*Articles subject to 10-percent tax on luggage, handbags, etc.*

Bathing suit bags
Beach bags or kits
Billfolds
Briefcases
Brief bags
Camping bags
Card and pass cases
Collar cases
Cosmetic bags and kits
Dressing cases
Dufflebags
Furlough bags
Garment bags designed for use by travelers
Hat boxes designed for use by travelers
Haversacks
Key cases or containers
Knapsacks
Knitting or shopping bags (suitable for use as purses or handbags)
Makeup boxes
Manicure set cases
Memorandum pad cases (suitable for use as card or pass cases, billfolds, purses, or wallets)
Musette bags
Overnight bags
Pocketbooks
Purses and handbags
Ring binders, capable of closure on all sides
Salesmen's sample or display cases, bags, or trunks
Satchels
Shoe and slipper bags
Suitcases
Tie cases
Toilet kits and cases
Traveling bags
Trunks
Vanity bags or cases
Valises
Wallets
Wardrobe cases

E1485
Exhibit 270A

LEGISLATIVE HISTORY

This retailers' excise tax covers a wide range of items of varied types and uses yet produces revenues of less than $100 million a year. Administrative compliance costs are high and the impact of the tax in the case of such items as ladies' handbags and men's wallets is regressive.

Your committee's bill repeals the retailers' excise tax on luggage, handbags, etc., effective July 1, 1965.

It is estimated that this provision will reduce revenues by $90 million a year.

B. MANUFACTURER'S EXCISE TAXES

1. Passenger automobiles (sec. 201 of the bill and sec. 4061 of the code)

Present law imposes a 10-percent tax on sales, by a manufacturer (or importer), of passenger automobiles, trucks, buses, trailers and semitrailers (but not house trailers). For purposes of imposing this tax, chassis and bodies of automobiles and trucks are separately classified.

The tax on trucks, buses, and truck and bus trailers is allocated to the highway trust fund and, therefore, is not dealt with in this bill.

The proposal of the administration would have reduced the tax on passenger cars by 3 percentage points on July 1, 1965; 1 percentage point on January 1, 1966; and 1 additional point on January 1, 1967. Thus, the administration proposal would have left the tax on passenger automobiles at the permanent rate of 5 percent. In view of the fact that the administration proposal, apart from the auto tax, calls for the repeal of all excise taxes except those considered the equivalent of a user charge, those of a regulatory nature, and the sumptuary taxes on alcohol and tobacco, your committee concluded that it could not justify leaving the 5-percent tax on passenger cars.

Despite the fact that your committee concluded that it was not appropriate to retain a 5-percent tax on passenger cars, it recognized that there are problems in the passenger car industry making undesirable too large a decrease in the tax as of any one time. The prices of new cars have an important bearing, for example, on the prices of used cars in the hands of dealers and owners. A too sharp reduction in the 10-percent manufacturers' excise on new automobiles might, therefore, produce severe dislocations in the used car market. Additionally, any substantial rate reduction scheduled any appreciable time in advance could be expected to have the effect of discouraging purchases in the interval before the reduction takes place. It is for this reason that a so-called consumer refund (described below) is provided with the 3-percentage-point reduction scheduled for July 1, 1965. Because consumers might postpone purchases and because of the impact of the tax reduction on the used-car market, your committee concluded that future reductions in any one year should be limited to 2 percentage points.

In view of the considerations set forth above, your committee's bill amends present law to provide that the tax on passenger cars (and trailers used with passenger cars) is to be 7 percent of the manufacturers' sales price effective July 1, 1965. This tax rate is to be further reduced to 6 percent effective January 1, 1966, 4 percent effective January 1, 1967, 2 percent effective January 1, 1968, and repealed effective January 1, 1969. The reductions for the fiscal year 1966 are in accord with the administration's recommendations. These are the 3-percentage-point reduction effective

E1486
Exhibit 270A

July 1, 1965, and the 1-percentage-point reduction effective January 1, 1966. The additional reductions provided by your committee do not affect the budget for the fiscal year 1966. To the extent reductions are provided for subsequent years, the budgets for these years can take these reductions into account.

Since the 10 percent manufacturers' excise tax is retained for truck and bus chassis, bodies, and trailers, while the rates applicable to passenger car chassis and bodies are gradually reduced to zero, questions may arise with respect to the imposition of tax on the sale of a chassis which may be used interchangeably with either a passenger automobile or truck body. To provide for such cases, your committee's bill amends the statute to provide that the sale of a passenger automobile is to be considered as a sale of a passenger car chassis and of a passenger car body. A similar rule is provided in the case of a sale of a truck or bus. Thus, where the completed unit is a passenger car, the chassis will be classified as a passenger car chassis even though it could have been used with a truck body. Where a chassis is sold by the manufacturer without a body being mounted on it, it is intended that the category for the chassis be determined on the basis of all of the facts available including the predominant use of such types of chassis in the industry.

In the case of new automobiles sold to ultimate purchasers on or after May 15, 1965, and before July 1, 1965, your committee's bill makes provision for consumer refunds equal to the 3-percentage-point reduction effective on July 1. For this purpose a dealer is considered to be an ultimate purchaser of cars which he uses as demonstrators. The bill provides that the Government will refund or credit to the manufacturer or importer of the passenger car an amount equal to the 3 percentage points of tax paid by the manufacturer or importer on his sale of the article. However, to obtain this credit or refund, the manufacturer or importer must file a claim with the Treasury Department on or before February 10, 1966, based on the information submitted to him before January 1, 1966, by the dealer who sold the passenger car to the ultimate purchaser. Also on or before February 10, 1966, the ultimate purchaser must be reimbursed for this 3 percentage points of the tax paid with respect to the passenger car he purchased during the interval from May 15, to July 1, 1965.

It is expected that in the case of a consumer who purchases a passenger car between May 15 and July 1, 1965, the dealer will inform him that, if the excise tax reduction is enacted as scheduled, he will be refunded the amount of the reduction in tax paid by the manufacturer or importer on the passenger car. The dealer will notify the manufacturer of the specific automobiles he sold during the May 15 to July 1 period [illegible]ation to the manufacturer as to the persons qualifying for consumer [illegible]ds will have to reach the manufacturer before January 1, 1966. This gives the manufacturer time to process the claims, make reimbursement, and file his overall claim with the Internal Revenue Service by February 10, 1966. Since this is the time he also usually files a quarterly excise tax return, these amounts can be claimed as credits against the tax otherwise due. The reimbursement by the manufacturer can be made directly by him to the consumer or may be made through the dealer who originally sold the article.

E1487
Exhibit 270A

Floor stock refunds with respect to passenger car tax will also be made available with respect to passenger cars in dealers' inventories on the various reduction dates for the passenger car tax. These are July 1, 1965, January 1, 1966, January 1, 1967, January 1, 1968, and January 1, 1969. This credit or refund with respect to dealers' floor stocks is available with respect to passenger cars sold by the manufacturer or importer before the tax reduction date, which are held by the dealer on that date, and which have not been used and are intended for sale by him. The credit or refund for these floor stocks must be claimed by the manufacturer or importer of the passenger automobile on or before the 10th day of the 7th month after the reduction date based upon reports he obtained from the dealer before the 1st day of the 6th month after the reduction date. Also on or before the 10th day of the 7th month after the reduction, the manufacturer or importer must have reimbursed the dealer for the tax reduction or obtained his written consent to the allowance of the refund or credit.

The 3-percentage-point reduction to be effective July 1, 1965, is expected to reduce revenues by $570 million a year when fully effective. The 1 percentage point reduction to be effective January 1, 1966, when fully effective is expected to reduce revenues by a further $190 million a year. The remaining reductions of 2 percentage points a year on January 1, 1967, 1968, and 1969 are expected to result in a further revenue loss of $1,140 million when these three reductions are fully effective. Thus, the revenue loss when all of the reductions are fully effective is expected to be $1.9 billion a year.

2. Automobile parts and accessories (sec. 201 of the bill and sec. 4061 of the code)

Generally, parts and accessories for automobiles, trucks, etc. are, when sold separately, presently subject to an 8-percent tax based upon the manufacturer's or importer's price. Tires and inner tubes and automobile radio and television receiving sets presently are subject to other taxes in lieu of the auto parts tax. However, to the extent of the manufacturer's markup on these parts, the auto tax in effect applies here also.

Your committee concluded that the automobile parts and accessories tax is an undesirable tax because it is regressive in its impact on the incomes of purchasers and also on the grounds that an estimated 30 percent of this tax represents a business cost item. In addition, this tax presents serious compliance and administrative burdens in large part because of the large number of taxpayers. It is estimated that there are close to 8,000 manufacturers or importers of automobile parts and accessories, which is many times the number of taxpayers involved in any other manufacturers' excise tax except those on gasoline.

For the reasons indicated above, your committee's bill repeals the general 8 percent tax on automobile parts and accessories. However, parts and accessories included as original equipment on automobiles will continue to be included in the base of the passenger car tax as long as that tax remains applicable. Although the 10 percent radio and television set tax is repealed effective July 1, 1965, the 8 percent auto parts and accessories tax will apply to these automobile radio and television sets for the period from July 1, 1965, to January 1, 1966, the date of the repeal of the general tax on automobile parts and accessories.

E1488
Exhibit 270A

Your committee's bill, although repealing the general tax on automobile parts and accessories, retains the present 8 percent manufacturers' tax on truck and bus parts and accessories. Since the tax on trucks and buses is considered a highway user charge and allocated to the highway trust fund, your committee believes that it is also appropriate to classify the tax on truck and bus parts as a highway user charge. In addition it believes that attempts might be made to avoid the truck tax by selling parts separately if no tax were imposed on truck parts. The bill, therefore, retains this tax and assigns it to the highway trust fund effective January 1, 1966.

The taxable truck or bus part or accessory is one which is not suitable for use (or ordinarily used) on or in connection with, or as a component part of, a passenger automobile (or trailer used with a passenger car) or house trailer. Under this definition, parts and accessories which are used interchangeably on automobiles and trucks (or buses) will not be taxed. For example, a battery which ordinarily is used in either an automobile or a light truck will not be taxed as a truck part although a heavy duty battery which ordinarily is used only in a truck will be so taxed.

The 8 percent manufacturer's excise tax on automotive parts and accessories is continued by your committee's bill during the remainder of 1965. At that time, the general parts and accessories tax is repealed but the 8 percent tax will continue to apply to truck parts and accessories until October 1, 1972, at which time the rate will revert to the permanent rate of 5 percent.

Your committee's bill makes provision for floor stock refunds with respect to parts and accessories (other than truck parts and accessories) held in dealers' inventories on January 1, 1966. In general, the procedure for claiming such a refund is the same as that outlined in the case of the passenger car tax. The refunds or credits must be claimed from the Government by the manufacturer or importer and he must base this claim upon a request submitted to him by the dealer who held the inventory stock on the date of the elimination of the tax. The manufacturer or importer must also have reimbursed the dealer for the tax or have obtained his consent to the allowance of the credit or refund from the Government.

It is estimated that the repeal of the tax on parts and accessories for passenger automobiles will reduce revenues by $230 million a year. Assignment of the revenues derived from the tax on truck parts and accessories to the highway trust fund will reduce general fund revenues by an additional $20 million a year but increase the revenues of the highway trust fund by a like amount.

3. Lubricating and cutting oils (sec. 202 of the bill and sec. 4091 of the code)

Sales by the manufacturer of cutting oils are taxed under present law at the rate of 3 cents a gallon and sales of other lubricating oils at the rate of 6 cents a gallon.

A very high proportion of expenditures for cutting and other lubricating oil represent a cost of doing business for some other final consumer product. It has been estimated that approximately 75 percent of all cutting and other lubricating oil falls in this category. The tax on this oil represents an arbitrary and discriminatory element in the cost of doing business and is unfair to those firms whose operations require the use of large amounts of

E1489
Exhibit 270A

cutting or other lubricating oil. This heavy concentration of lubricating oil as a business cost element also suggests that the ultimate burden of the tax is regressive.

For the reasons indicated above, your committee concluded that generally the lubricating oil tax was an undesirable tax to continue. However, it was recognized that to the extent that lubricating oil is used in highway motor vehicles, the tax represents an appropriate charge on the users of the highways similar to the gasoline tax and the tax on tires. The revenues from the gasoline and tire taxes are presently assigned to the highway trust fund. Your committee also recognized that the outright repeal of this tax might also present problems for the re-refiners of oil, who are not subject to the lubricating oil tax and whose profit margin generally is smaller than the amount of this tax. Therefore, to repeal this tax outright in many cases would drive re-refiners out of business. This would have the effect of encouraging the dumping of used oil in our streams rather than salvaging it through re-refining.

Your committee's bill, for the reasons indicated above, in effect removes the tax on all lubricating oils except those used in highway motor vehicles. In the case of cutting oil, this is accomplished by exempting such oil from tax. In the case of other lubricating oil, the 6-cents-per-gallon manufacturers' excise tax is continued. However, when this lubricating oil is used other than in highway motor vehicles, the user may obtain a refund with respect to the amount of tax paid. The procedures for obtaining these refunds will be similar to those now in effect with respect to gasoline used for nonhighway purposes. Generally, a refund may be claimed directly from the Government by the ultimate user on an annual basis. However, if the refund amounts to $1,000 or more with respect to any calendar quarter, a separate claim may be filed with respect to the lubricating oil used in that quarter.

Under your committee's action, the revenue collected from the lubricating oil tax—to the extent not refunded for nonhighway use—will be assigned to the highway trust fund.

The repeal of the 3 cents a gallon tax on cutting oil as well as the refund procedure for lubricating oil used for other than highway motor vehicles is to take effect January 1, 1966. Also, the transfer of the nonrefunded portion of the lubricating oil tax to the highway trust fund is to be effective with respect to taxes incurred after December 31, 1965. Your commitee's bill provides a floor stock refund with respect to cutting oils held by dealers on January 1, 1966, the date of the elimination of this tax. Lubricating oils used for other than highway motor vehicles after January 1, 1966, will be eligible for the new direct refunds provided for such lubricating oil use. Therefore, no special floor stock refund needs to be provided in their case.

It is estimated that the provisions relating to cutting and other lubricating oil will reduce revenues by $28 million a year. In addition, it is expected that approximately $50 million a year will be transferred from the general fund to the highway trust fund as a result of this change by your committee.

4. Refrigerators, freezers, and air-conditioning units (sec. 203 of the bill and sec. 4111 of the code)

Section 4111 of the Internal Revenue Code imposes a 5-percent manufacturers' excise tax on sales of household type refrigerators, freezers, and

E1490
Exhibit 2 0A

quick-freeze units and a 10-percent manufacturers' excise tax on sales of self-contained air-conditioning units.

Present living standards have made the refrigerator a standard household item. This is also true to a lesser extent of household type freezers. As a result, the burden of these taxes is regressive in its application on various income levels, falling relatively more heavily on low-income families and on families purchasing their first home. In the case of self-contained air-conditioning units, since the present tax does not apply to central air-conditioning units, there is discrimination against the window type unit as contrasted to the larger, more expensive types.

For the reasons indicated above, your committee's bill repeals the manufacturers' excise tax on refrigerators, freezers, quick-freeze units, and self-contained air-conditioning units effective July 1, 1965.

In the case of air conditioners, because sales tend to be concentrated heavily in the months of May and June—approximately 40 percent of the total year's sales—your committee has made provision for refunds to the consumers for the tax paid on units purchased on or after May 15, 1965, and before July 1, 1965. The procedure for processing these consumer refunds will be essentially the same as that described previously in the case of passenger automobiles.

Floor stock refunds will be made to dealers with respect to their inventories on hand of any of the items referred to above at the time the taxes are repealed on July 1, 1965. The procedure is essentially the same as that previously described in the case of the passenger car tax.[1]

It is estimated that this provision will reduce revenues by $75 million in a full year.

5. Electric, gas, and oil appliances (sec. 203 of the bill and sec. 4121 of the code)

A 5-percent tax is imposed under present law on the price for which manufacturers or importers sell various electric, gas, and oil appliances of the household type. The taxed items are listed in table 8.

TABLE 8.—*Electric, gas, and oil appliances subject to 5-percent appliance tax*

Electric, gas, or oil water heaters
Electric flatirons
Electric air heaters (not including furnaces)
Electric immersion heaters
Electric blankets, sheets, and spreads
Electric, gas, or oil appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises
Electric mixers, whippers, and juicers
Electric direct-motor and belt-driven fans and air circulators
Electric exhaust blowers
Electric or gas clothes driers
Electric door chimes
Electric dehumidifiers
Electric dishwashers
Electric food choppers and grinders
Electric hedge trimmers
Electric ice cream freezers
Electric mangles
Electric pants pressers
Electric, gas, or oil incinerator units and garbage disposal units
Power lawnmowers

The electric, gas, and oil appliances now subject to tax include many basic items of household equipment. As a result, as might be expected, the distribution of the burden of these taxes is regressive, bearing relatively

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[1] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

E1491
Exhibit 270A

more heavily on low-income groups. Your committee's bill, therefore, repeals this tax on electric, gas, and oil appliances effective July 1, 1965.

Provision is made for floor stock refunds in the same manner as in the case of passenger cars.[2]

It is estimated that this provision will reduce revenues by $85 million a year in a full year of operation.

6. Electric light bulbs (sec. 203 of the bill and sec. 4131 of the code)

Under existing law, a tax is imposed on the manufacturer or importer of electric light bulbs and tubes equal to 10 percent of the price for which the manufacturer or importer sells the items.

This tax both is imposed upon an essential household item and also substantially affects business costs. It has been estimated that approximately 65 percent of these items represent business costs. Both because of the bulbs' essential character as household necessities and the tax's significance as a business cost, this tax on electric light bulbs is a highly regressive tax, bearing much more heavily on families with relatively low income levels.

Your committee's bill repeals this tax, effective January 1, 1966.

Provision is made for floor stock refunds in a manner similar to that indicated previously with respect to passenger cars.

It is estimated that this provision will reduce revenues by $45 million a year in a full year of operation.

7. Radio and television sets, phonographs, records, etc. (sec. 204 of the bill and sec. 4141 of the code)

Present law imposes upon the sale by the manufacturer or importer a tax of 10 percent of the manufacturers' price with respect to radios, television sets, phonographs, radio and television components, and records. The full description set forth in the code is shown in table 9.

TABLE 9.—*Items subject to 10 percent radio, television, etc. tax*

Radio receiving sets
Automobile radio receiving sets
Television receiving sets
Automobile television receiving sets
Phonographs
Combinations of any of the foregoing
Radio and television components
Phonograph records

The above listed items are a widely employed source of home and family entertainment. The manufacturers' excises imposed on these items have the effect of discriminating against these sources of entertainment relative to other such sources. Moreover, the taxes in general have a regressive impact, for while high-income families buy more expensive models, nearly every home contains a radio and a television set. The tax, therefore, represents a larger percentage of the low-income family's income.

For the reasons indicated above, your committee's bill repeals the tax on radios, television sets, etc. effective July 1, 1965.

Provision is made for floor stock refunds with respect to the above listed items in the same manner as that indicated previously in the case of passenger cars.[3]

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[2] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

[3] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

E1492
Exhibit 270A

It is estimated that this provision of the bill will reduce revenues by $255 million a year when fully effective.

8. Musical instruments (sec. 204 of the bill and sec. 4151 of the code)

Present law imposes a 10-percent tax on sales of musical instruments by the manufacturer or importer.

The manufacturers' excise tax on musical instruments has a discriminatory impact on sales of this particular type of item used in providing individual recreation and entertainment. Moreover, it has been pointed out that instruments purchased by individuals for use by students in school bands, etc., are taxed while instruments purchased by the schools for the use of students are exempt.

The bill repeals the manufacturers' excise tax on musical instruments effective July 1, 1965.

Provision is made for floor stock refunds with respect to musical instruments in the hands of wholesale or retail dealers on July 1, 1965. In addition to musical instruments which the dealer holds on July 1, 1965, floor stock refunds are also available with respect to musical instruments where, as of such date, possession has been transferred to a prospective purchaser of the article if the article is returned to the dealer and the amount paid is returned to the prospective purchaser (other than amounts to cover damages to the article and, of course, transportation charges). The article must have been returned to the dealer by July 31, 1965. In such cases the article will be considered as not having been used. This exception to the requirement that the dealer have possession of the articles on the reduction date applies only if title to the musical instrument remains with the dealer. While the attention of your committee was called to the need for a provision of the above type in connection with musical instruments, this applies also in the case of refrigerators, freezers, and air-conditioning units, electric, gas, and oil appliances, radio and television sets, phonographs and related items, photographic equipment, etc., and business machines.

It is estimated that the repeal of the musical instrument tax will reduce revenues by $27 million in a full year of operation.

9. Sporting goods (sec. 205 of the bill and sec. 4161 of the code)

A wide variety of different types of items are subject to the 10 percent manufacturers' excise tax on sporting goods. These items are listed in table 10.

TABLE 10.—*Items subject to 10 percent sporting goods tax*

Badminton nets, rackets and racket frames (measuring 22 inches overall or more in length), racket string, shuttlecocks, and standards.
Billiard and pool tables (measuring 45 inches overall or more in length) and balls and cues for such tables.
Bowling balls and pins.
Clay pigeons and traps for throwing clay pigeons.
Cricket balls and bats.
Croquet balls and mallets.
Curling stones.
Deck tennis rings, nets and posts.
Fishing rods, creels, reels and artificial lures, baits and flies.
Golf bags (measuring 26 inches or more in length), balls and clubs (measuring 30 inches or more in length).

E1493
Exhibit 270A

Lacrosse balls and sticks.
Polo balls and mallets.
Skis, ski poles, snowshoes, and snow toboggans and sleds (measuring more than 60 inches overall in length).
Squash balls, rackets and racket frames (measuring 22 inches overall or more in length), and racket string.
Table tennis tables, balls, nets, and paddles.
Tennis balls, nets, rackets and racket frames (measuring 22 inches overall or more in length) and racket string.

Present law singles out for tax selected items of sporting equipment while leaving others untaxed. Thus, this tax represents a discriminatory tax on limited forms of recreation.

Your committee's bill eliminates this source of discriminatory tax treatment by repealing the manufacturers' excise tax on all of the above listed items effective July 1, 1965, except fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles). The 10 percent manufacturers' excise tax on fishing equipment is continued because revenues equivalent to the tax on these items are distributed under the provisions of Public Law 681, 81st Congress, to aid the States in fish restoration, and management in respect of fish having material value for sport and recreation.

It is estimated that the repeal of the sporting goods tax (other than fishing equipment) will reduce revenues by $25 million in a full year of operation.

10. Photographic equipment (sec. 205 of the bill and sec. 4171 of the code)

Existing law imposes a 10 percent manufacturers' excise tax on sales of certain cameras, camera lenses, and unexposed photographic film (in rolls and including motion picture film). In addition, a 5 percent manufacturers' tax is imposed on the sales of electric motion or still picture projectors of the household type.

The taxes on photographic equipment impose a discriminatory burden on those making use of such equipment for recreational or entertainment purposes. Your committee's bill, therefore, repeals the manufacturers' excise tax on photographic equipment effective July 1, 1965.

Provision is made for floor stock refunds in a manner similar to that provided for in passenger cars [4]

It is estimated that the repeal of these taxes will reduce revenues by $40 million in a full year of operation.

11. Business machines (sec. 206 of the bill and sec. 4191 of the code)

Existing law imposes a 10 percent manufacturers' tax on the sale of some 44 different types of business machines. The types of machines with respect to which tax is imposed are listed in table 11.

[4] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

E1494
Exhibit 270A

TABLE 11.—*Items subject to 10 percent business machine tax*

Adding machines
Addressing machines
Autographic registers
Bank proof machines
Billing machines
Bookkeeping machines
Calculating machines
Card punch machines
Cash registers
Change making machines
Check writing, signing, canceling, perforating, cutting, and dating machines and other check protector machine devices
Computing machines
Coin counters
Dictographs
Dictating machines
Dictating machine record shaving machines
Duplicating machines
Embossing machines
Envelope opening machines
Erasing machines
Folding machines
Fanfold machines
Fare registers and boxes
Listing machines
Line-a-time and similar machines
Mailing machines
Multigraph machines, typesetting machines and type justifying machines
Numbering machines
Portable paper fastening machines
Payroll machines
Pencil sharpeners
Postal permit mailing machines
Punch card machines
Sorting machines
Stencil cutting machines
Shorthand writing machines
Sealing machines
Tabulating machines
Ticket counting machines
Ticket issuing machines
Typewriters
Transcribing machines
Time recording devices
Combinations of any of the foregoing

As is suggested by the name of the tax, substantially all of these machines represent business cost items. The burden of the manufacturers' excise tax on these machines is distributed among various firms upon the basis of the particular business requirements of each firm. This distribution is rendered more erratic by the fact that the larger automatic data processing machines have been generally held not to be subject to this tax. To the extent that the costs of the taxable machines are reflected in product prices, the tax tends to distort relative prices of final goods. To the extent that the tax influences investment decisions, it tends to discourage the use of the taxed machines. In this manner, the tax tends to discourage the introduction of improved management and administrative techniques.

Your committee's bill repeals the manufacturers' tax on business machines effective July 1, 1965.

Provision is made for floor stock refunds in a manner similar to that indicated above in the case of passenger automobiles.[5]

It is estimated that the repeal of the excise tax on business machines will reduce revenues by $75 million in a full year of operation.

12. Pens, mechanical pencils, and lighters (sec. 206 of the bill and sec. 4201 of the code)

Mechanical pencils, fountain pens, and ballpoint pens are currently taxed at a rate of 10 percent of the manufacturers' or importers' sales price. The tax on lighters is 10 cents per lighter but not more than 10 percent of the manufacturers' or importers' sales price.

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[5] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax of musical instruments.

E1495
Exhibit 270A

Your committee believes that it is undesirable to continue the tax on mechanical pencils, fountain pens, and ballpoint pens, most of which are used either by schoolchildren or in businesses. The tax on lighters is a nuisance tax bringing in only a minimal amount of revenue.

Your committee's bill, therefore, repeals the manufacturers' excise taxes on pens, mechanical pencils, and lighters effective July 1, 1965.

It is estimated that this provision will reduce revenues by $11 million in a full year of operation.

13. Matches (sec. 206 of the bill and sec. 4211 of the code)

Existing law imposes upon the manufacturer or importer of matches a tax at the rate of 2 cents per 1,000, but not to exceed 10 percent of the price for which sold. An exception is made in the case of fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem and packed in boxes, which are taxed at the rate of 5½ cents per 1,000 matches.

The tax on matches is quite regressive in the distribution of the tax burden among various income levels. Therefore, this tax tends to impose heavier burdens on those with relatively low incomes.

Your committee's bill repeals the excise tax on matches effective July 1, 1965. It is estimated that this will result in a revenue loss of approximately $4 million a year.

C. FACILITIES AND SERVICES

1. Admissions and cabarets (sec. 301 of the bill and sec. 4231 of the code)

Under existing law, in the case of general admissions a tax of 1 cent for each 10 cents (or major fraction thereof) is imposed on the amount in excess of $1 paid for admission to any place other than racetracks and cabarets. In the case of admission to a horse or dog racetrack, the tax is 1 cent for each 5 cents (or major fraction thereof). In the case of cabarets (including roofgardens or similar places) the tax is 10 percent of the amounts paid for admission, refreshment, service, or merchandise.

In the case of sales outside of the box office in excess of the established price for admissions to theaters, operas, and other places of amusement, a tax of 10 percent (or 20 percent in the case of racetracks) is imposed on the excess of the price charged over the established price. In the case of sales by proprietors, managers, or employees of an opera house, theater, or other place of amusement in excess of the regular or established price, a tax of 50 percent of this excess is imposed.

The present excise tax on general admissions is undesirable in that it selects certain types of entertainment for tax when many other different forms of entertainment are free of tax. The present admissions tax with the $1 exclusion has its primary impact upon the cultural arts and professional athletic exhibitions. Your committee sees no reason for continuing to tax these forms of entertainment while other forms are largely free of tax. In the case of the cabaret tax, it is believed that the tax tends to discourage the hiring of professional musicians. In addition, there are very difficult problems of administration and compliance in determining precisely under what conditions the cabaret tax applies or does not

E1496
Exhibit 270A

apply in the case of restaurants where entertainment is provided at some hours and not at others.

Your committee's bill repeals all of these taxes on admissions effective at noon on December 31, 1965. The end of the day was avoided in this case in order to select a time for termination of the tax when general admissions or entertainment at cabarets was likely to be at a low point. In the case of season tickets the tax will not apply with respect to the proportion of the total admissions after such time.

It is estimated that the repeal of all of the admissions taxes other than the tax on cabarets would result in a revenue loss of $55 million in a full year of operation. The repeal of the tax on cabarets would result in an additional loss of $47 million, raising the aggregate loss to $102 million in a full year of operation.

2. Club dues (sec. 301 of the bill and sec. 4241 of the code)

Present law imposes a tax of 20 percent of the amounts paid as dues or membership fees to a social, athletic, or sporting club (if the total dues or fees paid exceed $10 a year). In the case of life memberships, the tax payable is the same as that of other members having privileges most nearly comparable to that of the life member; or, if the life member so elects, 20 percent of the amount paid for the life membership. Special provisions exempt from this tax amounts paid for capital improvements to the clubs provided the amounts are actually expended for such purposes within 3 years of the date of payment. Exemptions are also available in the case of dues paid to fraternal organizations and nonprofit swimming and skating clubs.

The present tax represents a tax on recreation which applies if the recreational outlet is a private club. Many other recreational facilities generally are not subject to excise tax. Moreover, the tax, which is substantial in this case, adds materially to the cost of club memberships, discouraging the formation and use of clubs. This is true not only of country clubs but also of other types of social or athletic clubs enjoyed by middle and lower income people.

Your committee's bill repeals the tax on club dues for payments attributable to periods beginning on or after January 1, 1966. Where the dues year straddles the effective date, the tax applies only to the dues (regardless of when paid) attributable to the portion of the year before that date. In the case of life memberships attributable in part to periods before 1966 in which the member has elected to pay a tax equal to 20 percent of the amount paid for the life membership, the full tax applies. However, in the case of life memberships where the tax is equivalent to the tax on amounts paid by members having privileges most nearly comparable to the life member, no tax will be due for periods beginning on or after January 1, 1966.

Where dues or membership fees attributable to periods beginning before January 1, 1966, have been free of tax because they were paid to be used for capital improvements, if they are not used for this purpose within 3 years of the date of payment, a tax is to apply since tax would have been due initially in the absence of the exemption.

It is estimated that the repeal of this tax will reduce revenues by $85 million in a full year of operation.

E1497
Exhibit 270A

LEGISLATIVE HISTORY

3. Communications (sec. 302 of the bill and sec. 4251 of the code)

Under existing law, amounts paid for general telephone, toll telephone, telegraph, teletypewriter exchange, and wire mileage service are taxed at the rate of 10 percent of the amounts paid for the service. A tax at the rate of 8 percent is imposed on amounts paid for wire and equipment service. The tax is paid by the person paying for the service.

(a) Rates of tax for local telephone service, toll telephone service, and teletypewriter exchange service.--Your committee concluded that the tax on local and toll telephone service and teletypewriter exchange service is undesirable as a permanent feature of our excise tax system. This conclusion was reached on the grounds, first, that these taxes are regressive and therefore fall with greater severity on those with low incomes than those with higher incomes. Second, the charges for telephone services enter heavily into business costs. Therefore, the tax discriminates against those firms that must make extensive use of the taxed services. However, while elimination of the tax is desirable on the grounds listed above, your committee has concluded that since the tax is an important source of revenue for the Federal Government, reduction should be staged over a period of years. Your committee's bill, therefore, provides for the repeal of the communications service tax on local telephone service, toll telephone service, and teletypewriter exchange service over a period of 4 years. The first reduction, a substantial one, is a reduction of 7 percentage points effective January 1, 1966. In January of each of the three succeeding years, the rate is reduced by 1 percentage point. No tax, therefore, will apply for the calendar year 1969 and subsequent years. As a result, under the bill, the rate of tax on the three services will be reduced from the present level of 10 percent to—

3 percent for amounts paid pursuant to bills first rendered on or after January 1, 1966, and before January 1, 1967;

2 percent for amounts paid pursuant to bills first rendered on or after January 1, 1967, and before January 1, 1968; and

1 percent for amounts paid pursuant to bills first rendered on or after January 1, 1968, and before January 1, 1969.

The tax is not to apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

In applying the new tax rates referred to above, in the case of communication services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill is to be treated as having been first rendered during such year. The existing 10 percent tax rate will continue to apply in the case of bills first rendered before January 1, 1966 (whether the services are rendered before, on, or after such date), and in the case of communication services rendered before November 1, 1965, even though the bill is first rendered on or after January 1, 1966.

The definitions of local telephone service (previously general telephone service), toll telephone service, and teletypewriter exchange service have been updated and modified to make it clear that it is the service as such which is being taxed and not merely the equipment being supplied. Thus, in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of

E1498
Exhibit 270A

telephonic quality communication which is taxed together with facilities or services provided with this service. Toll telephone service is defined as being a telephonic quality communication for which a toll charge is made which varies in amount with the distance and the lapsed transmission time of individual communications, but only if the charge is paid within the United States. Also included in this definition of toll telephone service is WATS (wide area telephone service). This is a long-distance service whereby, for a flat charge, the subscriber is entitled to make unlimited calls within a defined area (sometimes limited as to the maximum number of hours). A teletypewriter exchange service is defined as access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations in the same exchange system.

It is estimated that the reduction of the tax rate from 10 to 3 percent effective January 1, 1966, will result in a revenue loss of $639 million in a full year of operation. The elimination of the remaining 3 percentage points of tax over the next 3 years, it is estimated, will result in an additional revenue loss of $274 million when fully effective.

(b) Private communications services.—Under present law, a private communications system such as a private line or a private intercommunication system set up for a single subscriber (such as a PBX system or Centrex service) is taxed as a part of general telephone service if the telephones in this system have access to the local exchange system.

This has presented problems under present law because of competition from untaxed private equipment performing similar services. The telephone companies presently are losing intrapremise business (and interpremise business within local areas) to those providing telephone and microwave equipment which can be purchased and operated by the users themselves. Installation of equipment in this manner is accompanied by a reduction in the service from the local telephone company. Businesses installing their own internal communications systems in this manner avoid the tax on the telephone company's charge for both equipment and services. With the ever-increasing number of varied services which modern science makes it possible for telephone companies to provide, the tax on private communication systems represents a severe competitive handicap to the expanded use of these new and varied services.

For the reasons indicated above, your committee's bill provides an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems—where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber—generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service.

The definition of a private communication service refers to a communication service where a subscriber is entitled to the exclusive or priority use of a communication channel or groups of channels. This is

E1499
Exhibit 270A

sometimes referred to as a private line. The reference to an intercommunications system is intended to refer to a private exchange system for a single subscriber and thus to cover private PBX systems (whether or not they have in-dialing). Included in the definition of a private communication system is channel mileage for communication between a telephone station located outside a local exchange system and a central office in such local telephone system, if a separate charge is made for this service.

This exemption is to take effect as of January 1, 1966.

It is estimated that repeal of the tax on private communication services will reduce revenues by $130 million in a full year of operation.

(c) Telegraph service and wire and equipment service.—Telegraph service presently is subject to a tax of 10 percent of the amount paid while a tax of 8 percent is imposed on wire and equipment service. Wire and equipment service includes stock quotation and information services, burglar alarm and fire alarm service, and similar services.

In the case of telegraph service, the present tax presents an added handicap to an industry which has been experiencing a decline in business for a long period of time. The tax on wire and equipment service not only taxes the communication feature of the service, but other services provided as well. Moreover, in many cases, the services provided are in competition with similar services provided on a tax-free basis.

Because of the factors indicated above, your committee's bill repeals the tax on telegraph service and wire and equipment service effective January 1, 1966

The repeal of the tax on telegraph service is expected to result in a revenue loss of $17 million a year when fully effective, and the repeal of the wire and equipment service tax is expected to result in an annual revenue loss of $15 million a year.

4. Transportation of persons by air (sec. 303 of the bill and sec. 4261 of the code)

Under present law, a 5-percent tax is imposed on amounts paid within the United States for the taxable transportation of any person by air, and on amounts paid without the United States for transportation which begins and ends within the United States. Under existing law, this tax is scheduled to terminate on July 1, 1965.

The administration has pointed out that aviation contributes only a small percentage of the cost of developing and maintaining the Federal airways. For this reason, the administration included among its recommendations with respect to aviation user charges the proposal that the present tax on the transportation of persons by air be continued to give assurance that commercial airline passengers would pay a portion of the cost of maintaining the service they enjoy.

Your committee's bill continues indefinitely the present 5 percent tax in order that it may be considered subsequently in connection with a review by the committee of administration proposals with respect to user charges.

It is estimated that this provision will forestall a revenue loss of $140 million a year.

E1500
Exhibit 270A

5. Safe deposit boxes (sec. 304 of the bill and sec. 4286 of the code)

Present law imposes a 10-percent tax on amounts collected for the use of safe-deposit boxes. The tax is paid by the person paying for the use of the box.

This item represents a tax on the safeguarding of essential papers. In addition, it produces so little revenue that its separate imposition can hardly be justified.

Your committee's bill repeals this tax effective with respect to rentals or renewals taking effect on or after July 1, 1965.

It is estimated that this provision will reduce revenues by $7 million in a full year of operation.

D. MISCELLANEOUS TAXES

1. Documentary stamp taxes (sec. 401 of the bill and secs. 4301, 4311, 4321, 4331, and 4361 of the code)

Present law imposes documentary stamp taxes on the issuance of capital stock and certificates of indebtedness, sales or transfers of capital stock and certificates of indebtedness, conveyances of realty, and premiums on insurance policies issued by foreign insurers. The taxes are imposed at the following rates:

> 10 cents per $100 or major fraction thereof of the actual value on the issuance of capital stock (4 cents per $100 in the case of stock in regulated investment companies);
>
> 11 cents per $100 or fraction thereof of face value on the issuance of certificates of indebtedness;
>
> 4 cents per $100 or major fraction thereof of actual value on the sale or other transfer of shares or certificates of stock, or rights to receive such shares, but in no case shall the tax exceed 8 cents per share or be less than 4 cents per transfer;
>
> 5 cents per $100 or fraction thereof of face value on each sale or other transfer of a certificate of indebtedness;
>
> 55 cents per $500 or fractional part thereof of the consideration or value (when it exceeds $100) for which realty is conveyed; and in the case of policies insured by foreign insurers, at varying rates.

The taxes imposed on insurance policies issued by foreign insurers are not changed by the bill.

The taxes are administered through the sale of stamps.

The Federal documentary stamp taxes are frequently business cost items. In addition, they complicate the large variety of security transactions to which they apply. In the case of real estate conveyances, there is no effective means of Federal administration. Therefore, your committee concluded that this latter tax could better be left to the administration of State or local governments.

Your committee's bill repeals the documentary stamp taxes on the issuance of stock and certificates of indebtedness, on sales or transfers of stock and certificates of indebtedness, and on conveyances of real estate. The bill does not affect the existing regulatory tax imposed with respect to insurance policies issued by foreign insurers.

The documentary stamp taxes are repealed by your committee's bill as of January 1, 1966.

E1501
Exhibit 270A

LEGISLATIVE HISTORY

It is estimated that these provisions will reduce revenues by $195 million in a full year of operation.

2. Playing cards (sec. 402 of the bill and sec. 4451 of the code)

Under existing law, a tax of 13 cents per pack is imposed on every pack of playing cards (containing not more than 54 cards) at the time of its sale or withdrawal for consumption. The tax is administered through the sale of stamps which are affixed to the packs of cards.

In the interest of removing minor excise taxes, your committee's bill repeals this tax effective July 1, 1965.

It is contemplated that inventories of stamps not yet affixed to playing cards which are on hand on July 1, 1965, can be returned to the Internal Revenue Service and the amount paid for them refunded. In addition, it is understood that the amounts paid for stamps affixed to playing cards by manufacturers or importers will be refunded without removal of the stamps where the manufacturer or importer has not yet sold or removed the cards for consumption on July 1, 1965.

It is estimated that the repeal of this provision will reduce revenues by $11 million a year.

3. Coin-operated amusement devices (sec. 403 of the bill and sec. 4461 of the code)

Under existing law, an occupational tax must be paid by every person who maintains or permits the use of coin-operated amusement devices at any place or premise occupied by him. The tax is assessed at the rate of $10 a year for each device. A coin-operated amusement device includes music machines operated by coins or similar objects, penny vending machines which dispense merchandise prizes worth not more than 5 cents, and amusement machines not including gambling devices.

The occupational tax on coin-operated amusement devices is essentially a tax on a form of entertainment which does not constitute gambling. As taxes on other forms of entertainment (to the extent now taxed) are repealed by this bill, your committee's bill has also repealed the $10 a year tax on coin-operated amusement devices. No change is made in the present $250 a year tax on coin-operated gambling devices (such as slot machines).

The repeal of this tax is made effective as of July 1, 1965.

It is estimated that the repeal of this tax will reduce revenues by $6 million in a full year of operation.

4. Bowling alleys, billiard and pool tables (sec. 404 of the bill and sec. 4471 of the code)

Currently every person who operates a bowling alley, billiard parlor, or pool room must pay an occupational tax at the rate of $20 a year with respect to each alley or table.

Consistent with the treatment provided in this bill for other entertainment and recreation items (other than those which involve gambling), your committee's bill repeals the occupational tax on bowling alleys and billiard and pool tables.

The effective date of the repeal of this tax is July 1, 1965.

It is estimated that the repeal of this tax will reduce revenues by $7 million a year.

E1502
Exhibit 270A

EXCISE TAX REDUCTION ACT

E. ALCOHOLIC BEVERAGE AND TOBACCO TAXES

At the time of the Korean war, the taxes on distilled spirits, beer, wine, and cigarettes were increased by varying amounts. These increases, however, applied only until April 1, 1954. These rates have been continued on a year-to-year basis since that time. Currently, these rates are scheduled on July 1, 1965, to revert to the rates applicable before the Korean war.

In the case of the tax on distilled spirits, in the absence of this bill, the tax would be reduced from $10.50 to $9.00 per proof gallon. In the case of beer, the tax would be reduced from $9.00 to $8.00 per barrel. In the case of wines, which are subject to various tax rates, the reduction would be approximately 11 percent. In the case of cigarettes, the tax would be reduced from 8 cents to 7 cents a pack. The specific rates are shown in table 12.

It is estimated that retaining the present taxes on distilled spirits will prevent a revenue loss of $203 million; in the case of beer, a loss of $104 million; and in the case of wines, a loss of $12 million. Retaining the present tax on cigarettes will prevent a revenue loss of $262 million.

Your committee believes that given present revenue requirements, it is desirable to retain these taxes at their present rates. Should further excise reductions be desirable in the future, these rates of tax can be reviewed at that time.

For the reasons indicated above, your committee's bill makes the present tax rates on distilled spirits, beer, wines, and cigarettes part of the permanent law. It also repeals the floor stock refund provisions in present law which were to apply in the case of these taxes were the rates to be reduced as provided under present law.

TABLE 12.—*Present tax rates on alcoholic beverages and tobacco, which under the bill are retained on a permanent basis*

	Unit of tax	Present law rate	Rates scheduled for July 1, 1963, in absence of bill
Liquor taxes:			
Distilled spirits	Per proof gallon	$10.50	$9.
Beer	Per barrel	$9	$8.
Wines:			
Still wine:			
Containing not over 14 percent alcohol	Per wine gallon	17 cents	15 cents.
Containing over 14 to 21 percent alcohol	......do	67 cents	60 cents.
Containing over 21 to 24 percent alcohol	......do	$2.25	$2.
Containing more than 24 percent alcohol	......do	$10.50	$9.
Sparkling wines, liqueurs, cordials, etc.:			
Champagne or sparkling wine	......do	$3.40	$3.
Liqueurs, cordials, etc.	......do	$1.92	$1.60.
Artificially carbonated wines	......do	$2.40	$2.
Tobacco taxes: Cigarettes	Per 1,000	$4	$3.50.

E1504
Exhibit 270A

EXCISE TAX REDUCTION ACT

F. MISCELLANEOUS PROVISIONS

1. Partial payments and sales of installment accounts (sec. 207 of the bill and sec. 4216 of the code)

Present law specifies the amount of tax to be paid with each partial payment in the case of a lease, an installment sale where title does not pass until a future date, a conditional sale, or a chattel mortgage arrangement in which the sales price is paid in installments. The tax payment due with each partial payment is a proportion of the total tax due equal to the proportion of the full sales price represented by the given partial payment.

Your committee's bill, to cover situations where payments made with respect to a sale straddle effective dates, amends present law to provide that the tax paid with respect to each such partial payment will be a percentage of each payment based on the rate of tax, if any, in effect on the date the partial payment is due.

Under existing law, if installment accounts in which tax is being paid under the partial payment method are sold or otherwise disposed of, then, in general, any remaining tax due (determined by subtracting the amount paid with partial payments previously received from the total tax due), must then be paid. An exception is made if the sale of such accounts is connected with a bankruptcy or insolvency proceeding. In such a case the tax to be paid is not to exceed the amount of tax which would have been due if the tax had been based on the sale price, rather than on the original value under which the installment account was based.

Your committee's bill amends present law to provide that in the case of a sale of an installment account, a tax to be paid at the time of sale will be the difference between the amount of tax previously paid and the total tax which would be due if the account were not sold; that is, if the total tax were computed on the basis of reduced tax rates over the life of the contract as described above. In the case of sales connected with bankruptcy or insolvency proceedings, the tax to be paid cannot exceed the sum the amounts computed by multiplying a proportionate share of the present sales price which is allocable to each unpaid installment by the rate of tax which would apply at the time of such installment as provided in this bill.

2. Effective dates in the case of installment sales, etc. (sec. 701 of the bill)

Your committee's bill provides with regard to the effective dates for the repeal or reduction of certain retailers' and manufacturers' excise taxes as provided by the bill, that an article shall not be considered sold before July 1, 1965, or January 1, 1966, as the case may be, unless possession passes to the purchaser before such date. In the case of a lease, an installment sale where title does not pass until a future date, a conditional sale, or a chattel mortgage arrangement in which the sales price is paid in installments, entered into before one of the above dates, the tax to be paid in connection with partial payments made on or after such date will be based on the tax rate in effect on the date the partial payment is due.

E1505
Exhibit 270A

LEGISLATIVE HISTORY

VI. EXCISE TAXES REMAINING IN EFFECT

The excise taxes remaining in effect after all of the reductions made by your committee's bill become effective are shown in table 13. This table shows only those excise taxes remaining in effect after the scheduled reductions in 1967, 1968, and 1969 are fully effective. This table shows the present rates of these taxes and also the revenue expected to be derived from them under the expected yields for the fiscal year 1966. The total revenue of $10,433 million can be compared with the revenue derived from excise taxes under present law of $15,356 million. (The interest equalization tax is not included in this table).

E1506
Exhibit 270A

EXCISE TAX REDUCTION ACT

Table 13.—*Excise taxes remaining after all reductions made by H.R. 8371 become effective*

	Rate	Estimated revenue (millions)[1]
Retailers' excise taxes: Diesel fuel and special motor fuels	4¢ per gal	$195
Manufacturers' excise taxes:		
Trucks, buses, trailers	10% of mfrs. price	410
Truck parts and accessories	8% of mfrs. price	20
Tires, etc.:		
Highway type	10¢ per lb	430
Other	5¢ per lb	
Inner tubes	10¢ per lb	
Tread rubber	5¢ per lb	
Gasoline	4¢ per gal	2,800
Lubricating oil (highway use)	6¢ per gal	50
Fishing equipment	10% of mfrs. price	8
Pistols and revolvers	10% of mfrs. price	2
Other firearms, shells and cartridges	11% of mfrs. price	19
Miscellaneous excise taxes:		
Transportation of persons by air	5% of amount paid	140
Stamp tax: foreign insurance policies	4¢ or 1¢ per dollar of premium	5
Wagering:		
Wagers	10% of amount of wager	7
Occupation of accepting wagers	$50 per year	
Coin operated gaming devices	$250 per device per year	18
Use tax on certain highway vehicles	$3 per 1,000 lbs per year	108
Sugar	0.53¢ per lb	105
Import tax on oleomargarine	15¢ per lb	(2)

1685

TABLE 13.—*Excise taxes remaining after all reductions made by H.R. 8371 become effective*—Continued

	Rate	Estimated revenue (millions) [1]
Regulatory taxes:		
Narcotic drugs:		
Opium, opiates	$1 per ounce	1
Opium for smoking	$300 per lb	
Occupational	$1 to $24 per year	
Marihuana:		
Transfers	$1 or $100 per ounce	
Occupational	$1 to $24 per year	
White phosphorus matches	2¢ per hundred	(2)
Adulterated butter	10¢ or 15¢ per lb	
Process butter	¼¢ per lb	
Occupational taxes: adulterated or process butter	$48 to $600 per year	
Filled cheese	1¢ or 8¢ per lb	
Occupational taxes: filled cheese	$12 to $400 per year	
Cotton futures	2¢ per lb	
Bank circulation tax (other than national banks)	$\frac{1}{12}$ of 1%; $\frac{1}{6}$ of 1%; 10%	
Alcohol taxes:		
Distilled spirits	$10.50 per proof gal	2,750
Beer	$9 per barrel	940
Wine	Various rates	118
Rectification tax	30¢ per proof gal	25

E1508
Exhibit 270A

Table 13.—*Excise taxes remaining after all reductions made by H.R. 8371 become effective*—Continued

	Rate	Estimated revenue (millions)[1]
Occupational taxes:		
Rectifiers	$110 or $220 per year	22
Brewers	$55 or $110 per year	
Manufacturers of stills	$55 per year plus $22 per still	
Wholesale dealers	$123 or $255 per year	
Retail dealers	$24 or $54 per year	
Other	$25 to $100 per year	
Tobacco taxes:		
Cigarettes	$4 per 1,000	2,150
Cigars	$2.50 to $20 per 1,000	70
Manufactured tobacco (chewing, smoking and snuff)	10¢ per lb	18
Cigarette paper or tubes	½¢ or 1¢ per 50	2
Machineguns, etc.:		
Transfers	$5 or $200 per firearm	(2)
Occupational	$10 to $500 per year	
Total		[3] 10,433

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[1] The estimated revenue shown is for a full year of liability based upon expected yields in the fiscal year 1966. This is not the full yield expected from all excise taxes in 1966 because it does not include the expected yield of those taxes scheduled for elimination by the fiscal year 1969.

[2] Less than $500,000.

[3] This total can be reconciled with excise tax collections of $15,356,000,000 shown in table 1 by subtracting total effect of reductions under H.R. 8371 of $4,838,000,000 plus $85,000,000 representing undistributed depository receipts and unapplied collections which were included in the total shown in table 1.

E1509
Exhibit 270A

LEGISLATIVE HISTORY

SUPPLEMENTAL VIEWS OF THOMAS B. CURTIS ON THE EXCISE TAX REDUCTION ACT OF 1965

It is important to consider the economic theory on which a reduction of excise taxes at a time when the Federal budget is still not in balance and the economy is in a period of cyclical upturn.

The President in his message to the Congress on cutting excise tax revenues stated:

> I know that the Congress and the country will join me in recognizing our good fortune in being able to declare a new fiscal dividend of nearly $4 billion in excise tax cuts out of the bounty of a prosperous and growing economy—a dividend that will help keep it prosperous and growing.

I think it is necessary to contest this presumption. The Nation has no earnings out of which a "dividend" may be declared, as evidenced by the President's simultaneous request that the debt ceiling be raised from $324 to $329 billion.

The justification for repealing the selected retail and manufacturers' excise taxes and the excise taxes on transportation and communication lies in the economic inequities and impediments to economic growth inherent in these kinds of Federal selected excise taxes. Furthermore as Republicans have been consistently pointing out that many of these taxes were imposed during wartime to deliberately limit the amount of economic activity in certain areas and as a matter of governmental good faith these taxes should have been the first to be removed ahead of or concomitantly with income tax rate reduction, when the time had arrived when tax reduction could be considered.

In other words, the removal of these selected excise taxes is the removal of impediments to economic growth. It is not as the administration is wont to put it, particularly as it did in discussing the Federal income tax rate reductions to provide a stimulus to economic growth. This is not just a quarrel over figures of speech. After the removal of an impediment, a rock from the shoe, as it were, euphoria continues. After applying a stimulus, a shot in the arm, as it were, euphoria declines as time goes on.

It must be emphasized that the 1964 Federal income tax rate cuts law removed serious impediments to economic growth, but it could only have been successful if new sizable impediments were not created concomitantly with the removal of the old impediments. The Federal income tax cuts were accompanied with expenditure restraint so that greater impediments to economic growth hopefully were not created in the difficult field of debt management, not the least of which are inflation and deficiency balances in our international payments. It must be remembered that the Republican motion to recommit the 1964 income tax bill required that the bill be immediately reported back with an amendment which required the President to proclaim that expenditure levels were not to exceed $97 billion for fiscal year 1964 and $98 billion for fiscal year 1965. Although the administration resisted being so told, it received the message, and to its great credit did hold expenditures to these levels; indeed, it is keeping the level for this fiscal year below the $98 billion mark.

E1510
Exhibit 270A

EXCISE TAX REDUCTION ACT

So the issue on cutting $4 to $5 billion out of the $15 billion revenues the Federal Government receives from selected excise taxes relates to the administration holding expenditure levels to at least the increased figure of $99.7 billion for fiscal 1966 it gave the Congress in the budget message this January.

The administration spokesmen have stated that in spite of the international situation and in spite of the recent request which was granted for $700 million new obligational authority to the Department of Defense for activities in South Vietnam and in the Dominican Republic, it is adhering to the $99.7 billion expenditure level. The President in a special letter to the Ways and Means Committee has reaffirmed his intention to continue to exercise expenditure restraints.

Just as I felt that $97 and $98 billion were still too high expenditure levels in a period of economic upturn, so I feel that $99.7 billion is still too high for fiscal 1966. However, this is now not a dispute over a matter of economic theory, but of judgment based upon an adherence to an agreed upon theory.

The administration in spite of some spokesmen among its multifold membership is positively supporting the theory that tax cutting under present economic conditions can only be beneficial if accompanied with expenditure restraint. Expenditure restraint is never easy and it remains particularly difficult when the administration exercising this restraint at the same time is urging the Congress to enact increasing amounts of new obligational authority to spend for the future—specifically in the amount of $106.4 billion for fiscal 1966 and obviously in increasing amounts in the ensuing fiscal years if the programs the administration is initiating are to be fully carried out.

Furthermore, the administration has reiterated its determination to achieve the goal of a balanced budget and that balanced budgets are not economic myths adhered to only by out-of-date Puritans. The deficits have been decreasing and a balanced budget is within our sights by fiscal 1967 if expenditure restraint is exercised.

While the administration is to be commended for exercising expenditure restraint in the past 2 fiscal years, and hopefully in the next fiscal year beginning July 1, it must be noted that the carryover unspent authorizations enacted in prior years increased from $87.8 billion at start of 1964 to $89.3 billion at the end of 1964, to $96.7 at the end of 1965, to $101.5 billion at the end of 1966. This is the "time bomb" which the President can explode at any time, over which the Congress has lost effective control.

I think it is important that the administration implement its policy of expenditure restraint by cutting down on its previously granted authorities to spend before seeking new authorities or better still to send up a few rescission bills to the Congress to cut back on this huge carryover authority of $101.5 billion it otherwise will have on July 1, 1966.

E1511
EXHIBIT 270B
Senate Report No. 324, 89th Cong.,
1st Sess. (1965)

LEGISLATIVE HISTORY

- 475
(4-23-71)
PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

270B id

FPI-MI—9-24-75-50M-4417

SENATE REPORT NO. 324

THE Committee on Finance, to whom was referred the bill (H.R. 8371) to reduce excise taxes, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

I. GENERAL STATEMENT AND SUMMARY

H.R. 8371, the excise tax reduction bill of 1965, represents a comprehensive overhaul of the Federal excise tax structure. It also is designed to help sustain the economic expansion which we have enjoyed for the last 52 months.

The present excise taxes, for the most part, were initially levied as emergency revenue-raising measures at the time of the Korean war, World War II, or the depression of the 1930's. As a result, they were not developed on any systematic basis and are often discriminatory in their application to the taxed industries or to the purchasers of the taxed products. Your committee's bill either this month, next January, or in the 3 subsequent years removes substantially all of these selective excise taxes except those which represent user charges, regulatory taxes, or the sumptuary taxes on alcohol, cigars and cigarettes.

Your committee's version of this bill provides a tax reduction effective the day after the date of enactment of this bill which, when fully effective, will result in a revenue loss of $1.76 billion. A further reduction is provided for next January which, when fully effective, will decrease taxes by an additional $1.62 billion. These two reductions taken together will amount to $3.38 billion. Further reductions are scheduled to occur in 1967, 1968, and 1969. The additional reductions in these years will amount to approximately $1.3 billion, raising the total excise tax reduction, when fully effective, to about $4.7 billion. The comparable figures for the House bill, which differ but slightly from the totals presented here, are shown in table 1 of the report.

With three exceptions, your committee has not appreciably modified the rate reductions which would have been provided by the House bill.

The first of these exceptions relates to the 10-percent manufacturers' tax on passenger automobiles. The House bill would have repealed this tax gradually over a period of 4 years. Your committee's action would retain one percentage point of this tax to be allocated to a special fund to aid in the disposal of old and wrecked automobiles. Also, four percentage points of the reduction would be made contingent upon the cars meeting the same safety standards as required by the General Services Administration with respect to the purchase of cars by the Federal Government.

Second, the House bill would have eliminated all of the tax on lubricating and cutting oil (either by exemption or refund procedure) except that used by highway vehicles. Your committee's bill retains this tax whether or not used in highway vehicles.

Third, your committee's bill repeals the 10-cents-per-pound tax on manufactured tobacco (i. e., smoking and chewing tobacco and snuff).

Your committee also has acted to minimize to the extent possible any delay in consumer purchases arising from consumers awaiting the tax

E1512
Exhibit 270B

EXCISE TAX REDUCTION ACT

reductions made in this bill, by moving up most of the tax reductions scheduled under the House bill to become effective on July 1, 1965. Under your committee's action, these reductions will become effective on the day after the date of enactment of this bill.

In addition to the three substantive changes described above, your committee also made a number of changes dealing with floor-stock refunds, minor effective-date provisions, and related problems, as well as a series of technical and structural changes designed to improve the structure and administration of the excise taxes remaining in effect. The actions taken by your committee with respect to floor-stock refunds and related matters can be summarized as follows:

1. A floor-stock refund was provided with respect to the 13 cents-a-pack tax on playing cards repealed by this bill.
2. The provision in the House bill providing a floor-stock refund in the case of the 8-percent tax on automobile parts and accessories repealed by this bill was removed.
3. A floor-stock refund was provided with respect to the 10-percent tax on sporting goods repealed by this bill.
4. The effective date of the repeal of the stamp tax on stock and debt issuances and transfers was advanced 1 day, from January 1, 1966, to December 31, 1965.
5. The repeal of the documentary stamp tax on real estate conveyances was deferred for 3 years; that is, until January 1, 1969.
6. Provision was made for the tax-free purchase or use of electric light bulbs for incorporation in refrigerators, ranges, radios, television sets, and other articles the tax on which is removed this June (no change was made in the January 1, 1966, effective date for repeal of the tax on electric light bulbs generally).
7. Provision was made to require where an article is sold or leased on an installment basis before the date when a tax is repealed (but title is retained in the seller), that the tax would be removed on installments paid, or lease payments made, after that date only if the tax reduction on the payments is passed on to the consumer.

The technical and structural changes made by your committee can be summarized as follows:

1. The manufacturers' tax on trucks is made inapplicable to so-called camper coaches and bodies of mobile homes.
2. The manufacturers' tax on trucks is made inapplicable to truck bodies, parts, and accessories primarily designed for use in connection with the processing, hauling, or spreading of feed, seed, or fertilizer in connection with a farm activity.
3. The manufacturers' tax on trucks is made inapplicable to 3-wheeled motor vehicles powered by a motor which does not exceed 18 brake horsepower if the chassis does not weigh over a thousand pounds.
4. The manufacturers' tax on trucks is made inapplicable to the value of used parts used in the manufacture of the truck if the part is furnished by the customer.
5. It is made clear that new parts used in rebuilding other auto parts are subject to tax in the same manner as new parts used in repairing.
6. The manufacturers' tax on trucks, buses, etc., is made inapplicable to schoolbuses purchased by independent operators for their use under a contract arrangement with a school to transport schoolchildren.

E1513
Exhibit 270B

7. The definition of gasoline is modified so that casinghead and natural gasoline are taxable only when used as a fuel in a highway vehicle, motorboat, or airplane and to tax as gasoline only those products that are suitable for use as a motor fuel.

8. The requirement that manufacturers of gasoline must be bonded is eliminated.

9. An exemption certificate system, as an alternative to a registration system, is provided in the case of sales of articles free of manufacturers' taxes for use as supplies for vessels or aircraft.

10. The tax on transportation of persons is made inapplicable to the domestic portion of international travel in the case of servicemen, regardless of the elapsed time between the domestic and foreign segments of their travel, if they purchase their tickets within 6 hours of arrival and take the first available accommodation of the type their ticket calls for.

11. The Secretary of the Treasury is authorized to change the method of paying tax on policies issued by foreign insurers from the stamp to the return method.

12. The requirement that distilled spirits must be returned to the bonded premises of a distilled-spirits plant within 6 months of the time they are withdrawn, if a credit or refund is to be claimed, is repealed.

13. The mingling, etc., of distilled spirits is to be permitted without the payment of the rectification tax if the spirits are of the same type or class.

14. Proprietors of distilled-spirits plants are to be permitted to destroy (under supervision) distilled spirits returned to bonded premises.

15. The redistillation of articles containing denatured distilled spirits on the bonded premises of a distilled-spirits plant is to be allowed.

16. The relanding in the United States of exported distilled spirits is to be permitted when this is done with no intent to defraud the Government.

17. The amount of carbon dioxide permitted to be contained in still wines is increased from 0.256 gram to 0.277 gram per one hundred milliliters.

18. The requirement of present law relating to wine reserve inventories is deleted and the use of liquid sugar in the production of wine is permitted.

19. Shipment of liquors, free of tax, to all U. S. possessions is permitted.

20. The definitions of "cigarette" and "cigar" are modified to permit a more meaningful distinction to be made between the two.

21. In cases when a refund is allowable under present law with respect to the tax on tobacco products, as an alternative to the refund, a credit may be allowed.

22. The time for filing claims for refunds for gasoline tax with respect to gasoline used on farms by farmers (as well as some other types of claims for refund of gasoline tax) is changed so that these refunds generally may be taken as credits against income tax otherwise due.

23. Provision is made so that the statute of limitations on the assessment and collection of excise taxes will begin to run when an entry has been made on a return with respect to the particular type of tax in question.

24. An income tax exemption is provided for certain nonprofit exchanges for the sale of poultry.

The principal taxes reduced or eliminated under your committee's bill and the major differences between this bill and the House bill are summarized in the following tabulation:

E1514
Exhibit 270B

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
A. Retailers' excise taxes:			
1. Jewelry	10% of retail price	Repeal, day after enactment (July 1, 1965).	$220
2. Furs	10% of retail price	Repeal, day after enactment (July 1, 1965).	30
3. Toilet preparations	10% of retail price	Repeal, day after enactment (July 1, 1965).	210
4. Luggage, handbags, etc.	10% of retail price	Repeal, day after enactment (July 1, 1965).	90
B. Manufacturers' excise taxes:			
1. Passenger automobiles	10% of mfr. price	Reduce to 7% July 1, 1965; reduce to 6% Jan. 1, 1966; reduce to 5% Jan. 1, 1967; reduce to 3% Jan. 1, 1968;[1] reduce to 1% Jan. 1, 1969.[1]	[2] 1,710
		(Reduce to 7%, July 1, 1965; reduce to 6%, Jan. 1, 1966; reduce to 4%, Jan. 1, 1967; reduce to 2%, Jan. 1, 1968; repeal, Jan. 1, 1969.)	[2] (1,900)
2. Automobile parts and accessories (except truck parts).	8% of mfr. price	Extend 8% rate to Jan. 1, 1966, and then repeal, Jan. 1, 1966.[3] [4] [5]	230
3. Lubricating and cutting oil:			
(a) Cutting oil	3¢ per gal	Retain present law	0
(b) Lubricating oil	6¢ per gal		
((a) Cutting oil)	(3¢ per gal)	(Repeal, Jan. 1, 1966[2])	(28)
((b) Lubricating oil)	(6¢ per gal)	(Refund tax for oil not used in highway motor vehicles, beginning Jan. 1, 1966.[5])	

E1515
Exhibit 270B

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
B. Manufacturers' excise taxes—Continued			
4. Refrigerators, freezers, and air-conditioning units:			
(a) Refrigerators and freezers	5% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	41
(b) Self-contained air-conditioning units.	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	84
5. Electric, gas, and oil appliances	5% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	$85
6. Electric light bulbs	10% of mfr. price	Repeal, Jan. 1, 1966 [2]	45
7. Radio and television sets, phonographs, records, etc.	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	255
8. Musical instruments	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	27
9. Sporting goods, except fishing equipment.	10% of mfr. price	Repeal, day after enactment [2] July 1, 1965).	23
10. Photographic equipment:			
(a) Cameras, lenses, film	10% of mfr. price	Repeal day after enactment [2] (July 1, 1965 [2]).	40
(b) Projectors	5% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	
11. Business machines	10% of mfr. price	Repeal, day after enactment [2] (July 1, 1965 [2]).	75
12. Pens, mechanical pencils, and lighters:			
(a) Pens and pencils	10% of mfr. price	Repeal, day after enactment (July 1, 1965).	11
(b) Lighters	10¢ each, not to exceed 10% of mfr. price.	Repeal, day after enactment (July 1, 1965).	

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
B. Manufacturers' excise taxes—Continued			
13. Matches:			
(a) Plain	2¢ per 1,000, not to exceed 10% of mfr. price.	Repeal, day after enactment (July 1, 1965).	4
(b) Fancy	5½¢ per 1,000	Repeal, day after enactment (July 1, 1965).	
C. Facilities and services:			
1. Admissions and cabarets:			
(a) General admissions	1¢ for each 10¢ in excess of $1	Repeal, noon, Dec. 31, 1965	$55
(b) Race tracks	1¢ for each 5¢ of full price	Repeal, noon, Dec. 31, 1965	
(c) Cabarets	10% of bill	Repeal, noon, Dec. 31, 1965	47
2. Club dues	20% of annual dues, if in excess of $10.	Repeal, Jan 1, 1966	85
3. Communications:			
(a) Local and toll telephone service and teletypewriter service.	10% of amount billed	Reduce to 3%, Jan. 1, 1966;[3] Reduce to 2%, Jan. 1, 1967; Reduce to 1%, Jan. 1, 1968; Repeal, Jan. 1, 1969.	913
(b) Private communications services.	10% of amount billed	Repeal, Jan. 1, 1966	130
(c) Telegraph service	10% of amount billed	Repeal, Jan. 1, 1966	17
(d) Wire and equipment service	8% of amount billed	Repeal, Jan. 1, 1966	15
4. Transportation of persons by air	5% of amount paid	Extend rate on permanent basis	(6)
5. Safe deposit boxes	10% of amount paid	Repeal, July 1, 1965	7

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
D. Miscellaneous taxes:			
1. Documentary stamp taxes:			
(a) Bond and stock issues		Repeal, Dec. 31, 1965 (Repeal, Jan. 1, 1966.)	195
(i) Stock, except mutual funds.	10¢ per $100 of value.		
(ii) Mutual fund shares	4¢ per $100 of value.		
(iii) Bonds	11¢ per $100 of value.		
(b) Bond and stock transfers		Repeal, Dec. 31, 1965 (Repeal, Jan. 1, 1966.)	
(i) Stock	4¢ per $100 of value but no more than 8¢ per share or less than 4¢ per sale.		
(ii) Bonds	5¢ per $100 of value.		
(c) Conveyances	55¢ per $500 of value	Repeal, Jan. 1, 1969 (Repeal, Jan. 1, 1966.)	
2. Playing cards	13¢ per pack	Repeal, day after enactment [2] (July 1, 1965).	11
3. Coin-operated amusement devices (not including gaming devices).	$10 per year	Repeal, July 1, 1965	6
4. Bowling alleys, billiard and pool tables	$20 per year	Repeal, July 1, 1965	7

E1518
Exhibit 270B

Tax	Existing rate	Finance Committee action and effective date (provisions of House bill shown in parentheses where bills differ)	Estimated annual revenue loss when fully effective (millions)
E. Alcohol and tobacco taxes:			
1. Alcoholic beverages:			
(a) Distilled spirits	$10.50 per proof gal	Extend present rate on permanent basis.	(6)
(b) Beer	$9 per barrel	Extend present rate on permanent basis.	(6)
(c) Wines	Various rates	Extend present rates on permanent basis.	(6)
2. Tobacco:			
(a) Cigarettes	8¢ per pack	Extend present rate on permanent basis.	(6)
(b) Chewing, smoking and snuff	10¢ per pound	Repeal, Jan. 1, 1966 (Retain present law.)	$18 (0)

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[1] Rate remains at 5 percent unless certain safety standards are met.

[2] Provision is made for floor-stock refunds. In addition, in the case of passenger cars and air conditioners, refunds are made to customers who purchased items after May 14, 1965.

[3] The existing rate is extended from June 30, 1965, through Dec. 31, 1965. In the case of the telephone taxes only the tax on general (local) telephone service was scheduled to expire and is extended to Dec. 31, 1965.

[4] Auto parts and accessories subject to floor-stock refund under House bill but not your committee's bill.

[5] Truck parts and accessories allocated to the highway trust fund under both versions of the bill. Lubricating oil for highway use allocated to this trust fund under the House bill but not your committee's bill.

[6] The bill forestalls rate reductions which would otherwise occur under present law on July 1, 1965. In the case of transportation of persons by air, the revenue loss which is prevented is $140,000,000; in the case of distilled spirits, it is $203,000,000; in the case of beer, it is $104,000,000; in the case of wines, it is $12,000,000; and in the case of cigarettes, it is $262,000,000.

Note: This tabulation does not attempt to show the technical and structural changes made by your committee.

E1519
Exhibit 270B

LEGISLATIVE HISTORY

II. REVENUE ESTIMATES

The revenue effects of the House bill and your committee's bill are summarized in table 1, below. The estimates presented in this and the subsequent tables are based on expected 1966 income levels and do not take into account any "feedback" to revenues as a result of the impact of the bill on the economy.

Table 1 indicates that your committee's bill can be expected to reduce Federal revenues, at calendar 1966 income levels, by $4.7 billion when its provisions become fully effective. This includes a $10 million reduction in administrative budget receipts (when compared to those under present law) as a result of changes affecting the amounts transferred to the highway trust fund.[7]

Table 1 also shows that the House bill would reduce administrative budget revenues by $4.9 billion, or nearly $200 million more than your committee's bill, when its provisions became fully effective. Included in this House bill total are transfers to the highway trust fund of $70 million with the result that cash collections would be reduced by $4.8 billion on a full-year basis.

Not shown separately in table 1 is the effect of the removal of July 1, 1965, termination dates for certain excise tax rates currently in force. The revenue effect of these excise tax rate extensions is shown in table 4.

TABLE 1.—*Full effect on administrative budget receipts*[1] *of H.R. 8371 as reported by Committee on Finance and as passed by the House of Representatives*

[In millions]

	Finance Committee action	House action
Excise tax collections under rates and provisions now in effect	$15,356	$15,356
Transfer to highway trust fund under provisions now in effect	3,939	3,939
Excise tax collections, administrative budget, under existing rates and provisions	11,417	11,417
Tax reductions to take effect in fiscal 1966:		
To take effect day after enactment or July 1, 1965	1,758	1,748
To take effect Dec. 31, 1965, or Jan. 1, 1966	1,624	1,676
Tax reductions to take effect in 1967, 1968, and 1969	1,266	1,414
Total effect of tax reductions	4,648	4,838
Additional transfers to the highway trust fund	10	70
Total reductions of budget receipts	4,658	4,908
Excise tax collections, administrative budget, after tax reductions and additions to highway trust fund provided by H.R. 8371	6,759	6,509

[1] Estimated on the basis of 1966 levels of income.

Table 2 shows that excise tax reductions and repeals scheduled in your committee's bill for the day after the date of enactment or July 1, 1965,

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[7] The revenues from the tax on truck parts and accessories, which are retained in the general fund under present law, are transferred to the trust fund under both versions of the bill increasing the revenues of the trust fund by $20 million. However, exemptions provided by your committee for school buses, camper coaches, mobile homes, etc., reduce highway trust fund revenues by $10 million. The result of these changes is to decrease general fund revenues by $20 million but increase highway trust fund revenues by only $10 million.

E1520
Exhibit 270B

EXCISE TAX REDUCTION ACT

involve a total reduction in revenues of $1,758 million on an annual rate basis. Because of delays in collections, however, these reductions will reduce fiscal 1966 revenues by an estimated $1,495 million.

Table 2 also indicates that the reductions scheduled for December 31, 1965, and January 1, 1966, involve an additional reduction in revenues of $1,624 million on an annual rate basis. The reduction in fiscal 1966 receipts expected to stem from this second series of reductions is only $505 million because the reductions will be in effect only half the year and because of anticipated lags in collections.

Thus the full-year effect of reductions which will go into effect by January 1, 1966, is $3,382 million while the impact of these reductions on actual fiscal 1966 revenue is limited to a reduction of $2,000 million.

The revenue effects of the House bill also are shown in table 2. The provisions of the House bill would have an impact on revenue which differs only slightly from the impact of your committee's bill as far as those reductions scheduled to go into effect by January 1, 1966, are concerned. The full-year revenue effect of the reductions and repeals scheduled for July 1, 1965, in the House bill is only $10 million less than the revenue effect of the provisions in your committee's bill which are scheduled to go into effect by that date. The House bill provides for $42 million more in the way of tax reduction, on a full-year basis, than the Senate bill when all the reductions scheduled for fiscal 1966 are considered (largely because of the 3-year postponement made by your committee in the repeal of the real estate conveyance tax).

Administrative budget receipts in fiscal 1966 will be reduced as a result of two other factors not reflected in table 2. It is expected that the floor stock refunds authorized by both the House bill and your committee's bill in connection with excise taxes to be eliminated or reduced by July 1, 1965, will involve tax refunds in the fiscal year 1966 of about $170 million. Administrative budget receipts during the fiscal year will also be reduced as a result of additional transfers to the highway trust fund. On a full-year basis, your committee's bill transfers an additional $10 million to the highway trust fund while the House bill would transfer $70 million to the trust fund. The latter transfers will not affect actual cash collections from the public. These factors raise the estimated impact of your committee's bill on fiscal 1966 administrative budget receipts to nearly $2.2 billion or about the same as the estimated impact of the House bill.

The estimates presented here of the effect of this bill on receipts in the fiscal year 1966 also do not take into account any increase in general revenues which might result from an increase in the level of economic activity generated by tax reductions. The Treasury estimated, in connection with the House bill, that such effects would increase fiscal 1966 revenues from all Federal taxes by about $400 million. Thus the Treasury estimated that the net effect of H.R. 8371 on fiscal 1966 administrative budget receipts would be a reduction of $1.8 billion, including the effect on administrative budget receipts of additional transfers to the highway trust fund. The Treasury also estimated that the "feedback" effect would grow to nearly $1.5 billion in the fiscal year 1967, reducing the revenue loss for that year to $2.2 billion. These Treasury estimates of the "feedback" effects associated with your committee's bill do not differ substantially from the estimates of feedback effects presented in connection with the House bill. The Treasury estimates the net effect of your committee's bill on receipts

E1521
Exhibit 270B

in the fiscal year 1966 will be $1.8 billion and in the fiscal year 1967, $2.0 billion.

TABLE 2.—*Tax reduction under those provisions of H.R. 8371 which take effect in fiscal year 1966 (or late in the fiscal year 1965)*

[In millions of dollars]

	Full year revenue loss under bill as—		Reduction in tax collections, fiscal year 1966, under bill as—	
	Reported by your committee	Passed by House [illegible] Repre sentati	Reported by your committee	Passed by House of Representatives
I. Provisions which take effect day after enactment or July 1, 1965:				
1. Repeal retail taxes:				
Jewelry	220	220	183	183
Furs	30	30	25	25
Toilet preparations	210	210	175	175
Luggage	90	90	75	75
Subtotal	550	550	458	458
2. Repeal following manufacturers taxes:				
Business machines	75	75	62	62
Sporting goods except fishing equipment	25	25	21	21
Phonograph records	30	30	25	25
Musical instruments	27	27	22	22
Television sets	135	135	112	112
Radios and phonographs	90	90	75	75
Photographic equipment	40	40	33	33
Refrigerators	34	34	28	28
Freezers	7	7	6	6
Air conditioners	34	34	28	28
Electric, gas, and oil appliances	85	85	71	71
Pens and pencils	8	8	7	7
Lighters	3	3	2	2
Matches	4	4	3	3
Playing cards	11	11	11	11
Subtotal	608	608	506	506
3. Other taxes repealed:				
Coin-operated amusement devices	6	6	6	6
Bowling alleys, billiard and pool tables	7	7	7	7
Safe deposit boxes	7	7	6	6
Subtotal	20	20	19	19
4. Rate reduction: Passenger automobiles, 3 points	570	570	475	475
5. Technical changes:				
(a) Exemptions:				
Schoolbuses	4	....	3	....
Camper coaches	6	....	4	....
(b) Other	(1)	....	(1)	....
Subtotal	10	....	7	....

E1522
Exhibit 270B

TABLE 2.—*Tax reduction under those provisions of H.R. 8371 which take effect in fiscal year 1966 (or late in the fiscal year 1965)*—Continued

[In millions of dollars]

	Full year revenue loss under bill as—		Reduction in tax collections, fiscal year 1966, under bill as—	
	Reported by your committee	Passed by House of Representatives	Reported by your committee	Passed by House of Representatives
I. Provisions which take effect day after enactment or July 1, 1965—continued				
6. Effective date changed from July 1, 1965, to day after enactment	....	....	[2] 30	....
Subtotal	1,758	1,748	1,495	1,458
II. Provisions to take effect Dec. 31, 1965, or Jan. 1, 1966: [3]				
1. Repeal taxes on admissions and club dues:				
General admissions	55	55	18	18
Cabarets	47	47	16	16
Club dues	85	85	28	28
Subtotal	187	187	62	62
2. Communications taxes:				
Repeal taxes on—				
Private communications services	130	130	32	32
Telegraph service	17	17	4	4
Wire and equipment service	15	15	4	4
Rate reduction on general and long distance, 7 points	639	639	160	160
Subtotal	801	801	200	200
3. Repeal of other taxes:				
Automobile parts and accessories, except truck parts	230	230	77	77
Lubricating oil (except highway use)	....	28	....	[1]
Electric light bulbs	45	45	15	15
Documentary stamps (except foreign insurance policies)	153	195	79	98
Chewing and smoking tobacco and snuff	18	....	9	....
Subtotal	446	498	180	192
4. Other rate reductions:				
Passenger automobiles, 1 point	190	190	63	63
Subtotal	1,624	1,676	505	517
III. Total fiscal year 1966 program	3,382	3,424	2,000	1,975

[1] Less than $1,000,000.

[2] Assumes an effective date 10 days prior to July 1, 1965.

[3] The effective date is Dec. 31, 1965, for repeal of the taxes on general admissions and cabarets under both versions of the bill. Under your committee's bill the effective date for repeal of the documentary stamp taxes on issuance and transfers of bonds and stocks is Dec. 31, 1965, and the effective date for repeal of the tax on conveyances is Jan. 1, 1968.

E1523
Exhibit 270B

LEGISLATIVE HISTORY

The most marked difference between the revenue impact of your committee's bill and the House bill concerns provisions scheduled to go into effect after the calendar year 1966. The House bill provides for reductions of 2 percentage points in the manufacturers' excise tax on passenger automobiles to become effective on January 1, 1967, 1968, and 1969. Under your committee's bill, the excise tax on passenger automobiles is to fall by 1 percentage point on January 1, 1967, and by 2 percentage points on each of the following January 1 dates provided that certain safety devices are built into the cars. Your committee's bill also extends the documentary stamp tax on real estate conveyances beyond January 1, 1966 (repeal date set in the House bill) to January 1, 1969. As a result of these differences, the revenue effect of provisions which would go into effect on and after January 1, 1967, is a reduction of $1,414 million under the House bill while it is only $1,266 million under your committee's bill with the assumption that all passenger cars sold after January 1, 1968, will contain the required safety devices. This difference of $148 million can be accounted for by the $190 million of additional revenue produced under your committee's bill by retaining the 1 percentage point of tax for passenger cars, less the $42 million revenue loss from the repeal of the tax on real estate conveyances which under your committee's bill occurs in this period. The estimated effects of those provisions of your committee's bill and of the House bill which take effect after 1966 are presented in table 3.

TABLE 3.—*Tax reduction under those provisions of H.R. 8371 which take effect after fiscal year 1966*

[In millions of dollars]

	Full year revenue loss under—	
	Finance committee action	House action
I. Rate reductions to take effect Jan. 1, 1967:		
1. Passenger automobiles, 1 point	190	....
(Under House bill, 2 points)	....	380
2. Telephone services, 1 point	91	91
Subtotal	281	471
II. Rate reductions to take effect Jan. 1, 1968:		
1. Passenger automobiles, 2 points if safety devices provided	[1] 380	380
2. Telephone services, 1 point	91	91
Subtotal	471	471
III. Provisions to take effect Jan. 1, 1969:		
1. Rate reduction, passenger automobiles 2 points if safety devices provided	[1] 380	380
2. Repeal of taxes on—		
Telephone services	92	92
Conveyances	42	....
Subtotal	514	472
IV. Cumulative effect of provisions to take effect Jan. 1, 1967, 1968, and 1969	1,266	1,414

[1] This estimate assumes all cars sold are provided with the required safety devices.

E1524
Exhibit 270B

Table 4 contains estimates of the revenue effect of provisions in both your committee's bill and the House bill which strike out certain provisions of present law which would reduce or eliminate selected excise tax rates on July 1, 1965. Shown in the table are the effects of extending existing tax rates on alcoholic beverages, cigarettes, and transportation of persons by air. Not shown in the table are the revenue effects of extending the present tax rate on automobile parts and accessories and the present tax on communications services from July 1, 1965, through December 31, 1965.

TABLE 4.—*Revenue effect of removal of termination dates for certain excise taxes*

[In millions of dollars]

	Full year gain	Gain in fiscal year 1966 [1]
Alcohol:		
Distilled spirits	203	330
Beer	104	112
Wines	12	18
Total, alcohol	319	460
Tobacco, cigarettes (small)	202	283
Transportation of persons by air	140	117
Total	721	860

[1] Gain consists of increased collections and elimination of floor stock refunds.

III. REASONS FOR THE BILL

H.R. 8371 constitutes a major revision of the Federal excise tax system. It also provides a substantial excise tax cut which will help sustain the current upswing in economic activity—an upswing that has already lasted 52 months, longer than any other period of continued, uninterrupted peacetime economic expansion.

A major change made by your committee in the House bill provides that substantially all of the excise tax reductions scheduled under that bill to become effective on July 1 are, under your committee's bill, to become effective the day after the date this bill is enacted. Your committee has taken this action to minimize to the full extent possible any deferral of purchases on the part of consumers in expectation of the excise tax reductions provided by the bill.

A second major change made by your committee in the House bill relates to the 10-percent manufacturers' excise tax on passenger automobiles. The House bill would have provided a 3-percentage-point reduction in this tax at the end of this month, another percentage-point reduction on January 1, 1966, and thereafter would have eliminated the tax over the next 3 years. Your committee's action modifies the House bill with respect to this tax in two ways. First, it provides that 1 percentage point of this tax is to be retained and allocated to a special fund which will be used (subject to appropriations) by the President to aid in the disposal of old and wrecked automobiles. The disposal of old and wrecked automobiles has become an important problem, the cost of which your committee believes

E1525
Exhibit 270B

appropriately should be borne by the purchasers of automobiles as a user charge.

An additional 4 percentage points of the reduction in the passenger car automobile tax is made contingent upon the provision of certain safety devices on the passenger automobile by the manufacturer. These safety devices are those which the General Services Administration will require on passenger automobiles purchased by the Federal Government. The requirements are designed to help prevent collisions, to minimize the effect of collisions which do occur, and to control exhaust emission in accordance with the Federal Clean Air Act. In your committee's view, the accident toll on the highways presents such a serious problem that it is appropriate to use the tax system in this way.

The bill both as passed by the House and as amended by your committee calls for the repeal outright, or on a scheduled basis, of a large number of excise taxes. In large part, these taxes were imposed as emergency wartime measures either in the Korean war or as emergency revenue-raising measures at the time of the depression of the 1930's. By eliminating these taxes the bill will leave a tax system in which substantially all of the remaining excise taxes fall in one of three categories:

1. Excises which are levied on the benefit principle. Under this principle those who benefit from particular Government services help to pay the cost of the services by paying charges (in the form of excises) which to some extent measure the benefit they derive from the use of the services. Included in this category are such taxes as those on gasoline, tires, and tubes, and other revenues allocated to the highway trust fund. Also included in this category are such taxes as those on fishing equipment and firearms, which are, in effect, earmarked for special purposes.
2. Regulatory taxes, such as those on marihuana, opium, white phosphorus matches, and gambling.
3. Sumptuary taxes, such as those on alcohol, cigars, and cigarettes.

The elimination which this bill provides for, of practically all of these other excise taxes (here called selective excises) will improve the fairness of the tax system and substantially simplify the administration of the tax law, as well as contribute to the economic well-being of the Nation. The present selective system of excise taxes places discriminatory tax burdens on the consumers and producers of the taxed products. Most of these taxes were imposed in time of national emergency to raise needed revenues and in many cases to stem inflationary pressures and divert essential resources to defense-related uses. With these emergencies past, the selective taxes are now the source of undesirable discrimination. Consumers of the taxed products where the tax is passed forward must pay a premium, over and above the market value, for the taxed items, which consumers of untaxed items do not pay. These selective excise taxes tend to reduce sales and therefore reduce incomes and jobs in the industries which produce the taxed goods. In these ways selective excise taxation results in arbitrary and undersirable distortions in the allocation of resources and in this manner interferes with the free play of competitive markets.

Many of these excises are objectionable in that they are regressive in their impact, absorbing a larger share of the income of low-income persons than of those with higher incomes. This stems from the fact that low-income families find it necessary to spend a higher proportion of their

E1526
Exhibit 270B

incomes for consumption than those with larger incomes. **Moreover, the** present system of manufacturers' excises tends to impose heavier tax burdens on newly formed families who must invest heavily in purchases of appliances and other taxed commodities.

Another undesirable aspect of many of the selective excise taxes is that they fall in part on items used in business. They therefore place arbitrary tax burdens on firms which must use the taxed items. Moreover, these business cost taxes may discourage the use of the most advanced and efficient machines or other products, and their inclusion in the costs of business introduce price distortions in markets for final goods and services. Since these costs tend to be reflected in the prices of final or end consumer products, they are probably regressive in impact.

In many instances the selective excises also create heavy compliance burdens. The imposition of Federal excises on a variety of relatively inexpensive commodities burdens retailers and manufacturers with compliance duties which are often disproportionately heavy, viewed in relation to the revenues produced by the taxes. Moreover, this burden tends to be heavier for smaller businesses. Removal of this burden, a hidden cost of taxation, will free businessmen to spend more time managing their own affairs.

The $1.76 billion tax reduction provided by this bill effective late this month will help to insure that the growth in the rate of economic activity does not fall short of growth in the size of growth of the productive capacity of the Nation, and in the size of the labor force. The further $1.6 billion excise tax reduction effective next January will help to offset any possible adverse effect from other scheduled tax rate increases. This second and the later stages of tax reduction scheduled in the bill will help to sustain the rate of economic expansion required to prevent a rise in the level of unemployment.

It is expected that for the most part, the excise tax reduction will result in increased general consumer spending in response to price reductions made on the products now taxed. Much of this increased spending may well be for products other than those taxed. In addition, where businesses do not pass the reductions along to consumers, (as, for example, where they had previously absorbed the tax) it is believed this will provide business firms with both the means and the incentive to modernize and expand production capacity.

The current strength of the economy testifies to the success of the Revenue Act of 1964. The magnitude of current tax collections testifies to the validity of the proposition that a prosperous economy is the best guarantee of a balanced budget. While the Revenue Act of 1964 reduced individual and corporate liabilities by an estimated $14 billion, at 1965 income levels, it is currently estimated that fiscal 1965 administrative budget revenues will exceed fiscal 1964 administrative budget revenues by $3.1 billion. It is further estimated that fiscal 1966 revenues, after account is taken of the excise tax reductions proposed in your committee's bill, will exceed fiscal 1965 revenues by $2.8 billion. The excise tax reductions proposed in this bill will be an important factor promoting the continued strength of the economy. As a result, it will also hasten the time when Federal budget receipts will equal expenditures.

E1527
Exhibit 270B

LEGISLATIVE HISTORY

Present unused productive capacity and unemployed members of the labor force mean that your bill is unlikely to have an inflationary impact. Inflationary pressures have not developed significantly as a consequence of the Revenue Act of 1964 and the tax reduction provided by this bill is far less than the amount provided by that act. Moreover, the reductions provided by this bill will exert direct pressure to lower prices on a broad range of important consumer goods, including automobiles and major appliances.

IV. GENERAL EXPLANATION OF TAX RATE ADJUSTMENT PROVISIONS (TITLES I-VII)

A. RETAILERS' EXCISE TAXES

1. Jewelry and related items (sec. 101 of the bill and sec. 4001 of the code)

Under present law a tax equivalent to 10 percent of the retail sales price is imposed on jewelry, various precious and semiprecious stones, watches, clocks, sterling silverware, silver-plated hollowware, and certain other items. The full list of items subject to tax is shown in table 5.

TABLE 5.—*Items subject to 10-percent jewelry, etc., tax*

- All articles commonly or commercially known as jewelry, whether real or imitation
- The following stones, by whatever name called, whether real or synthetic:
  - Amber
  - Beryl of the following types:
    - Aquamarine
    - Emerald
    - Golden beryl
    - Heliodor
    - Morganite
  - Chrysoberyl of the following types:
    - Alexandrite
    - Cat's eye
    - Chrysolite
  - Corundum of the following types:
    - Ruby
    - Sapphire
  - Diamond
  - Feldspar of the following type:
    - Moonstone
  - Garnet
  - Jadeite (jade)
  - Jet
  - Lapis lazuli
  - Nephrite (jade)
  - Opal
  - Pearls (natural and cultured)
  - Peridot
  - Quartz of the following types:
    - Amethyst
    - Bloodstone
    - Citrine
    - Moss agate
    - Onyx
    - Sardonyx
    - Tiger-eye
  - Spinel
  - Topaz
  - Tourmaline
  - Turquoise
  - Zircon
- Articles made of, or ornamented, mounted, or fitted with precious metals or imitations thereof
- Watches
- Clocks
- Cases and movements for watches and clocks
- Gold, gold-plated, silver, or sterling flatware or hollowware and silver-plated hollowware
- Opera glasses
- Lorgnettes
- Marine glasses
- Field glasses
- Binoculars

The retail excise tax on jewelry and related items is a burdensome tax on retailers and produces only $12[illegible] million of revenue annually. In all, it is believed that 100,000 to 200,000 retail outlets are involved in the collection of this tax. The compliance burden imposed by the tax is often a severe one in an industry which contains a large number of small, one-

E1528
Exhibit 270B

family concerns. Moreover, there are difficult problems in determining the actual sales price in the auditing of these returns.

Both the House bill and your committee's bill repeal the retail excise tax on jewelry. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Procedures for retail taxes.—Procedures will be provided for recouping the taxes on jewelry, as well as the taxes on other items subject to retail tax, with respect to articles held by a retailer on the effective date of the bill where the tax was prepaid by the distributor on his sale to the retailer under an agreement with the Internal Revenue Service. Similarly, prepayments of retailers' taxes by a retailer as of the time taxable articles are received in his inventory will be treated as an overpayment, giving rise to a credit or refund. Although generally the retail taxes will not apply to sales after the date the tax is eliminated, where an article (purchased when tax was applicable) is returned after the tax is removed and then either the same, or a like, article immediately purchased, this is not to be treated as a "sale" and therefore the tax initially paid will still be due.

Revenue effect.—It is estimated that this provision will reduce revenues by $220 million in a full year.

2. Furs (sec. 101 of the bill and sec. 4011 of the code)

A tax equivalent to 10 percent of the retail sales price is currently imposed on articles made of fur on the hide or pelt and on articles of which fur is the component material of chief value.

As in the case of jewelry, the administrative cost of compliance is high relative to the revenue collected from the retail excise on furs. In addition, the tax has been a depressant on the fur industry, which in recent years has not fully shared in the general prosperity.

Both the House bill and your committee's bill repeal the retailers' excise tax on furs. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $30 million in a full year.

3. Toilet preparations (sec. 101 of the bill and sec. 4021 of the code)

A tax equivalent to 10 percent of the retail sales price is currently imposed on various types of toilet preparations. These are more fully described in table 6.

TABLE 6.—*Articles subject to 10-percent tax on toilet preparations*

Perfume
Essences
Extracts
Toilet waters
Cosmetics
Petroleum jellies
Hair oils
Pomades
Hair dressings
Hair restoratives
Hair dyes
Toilet powders

Any other similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

E1529
Exhibit 270B

LEGISLATIVE HISTORY

Many of the items currently taxed as toilet preparations are so widely used that the retailers' excise tax has a substantially regressive impact. Persons with low incomes, therefore, pay a larger portion of their incomes for this tax than do those with larger incomes. Moreover, the tax entails high compliance and administration costs. This is attributable to the large number of retail outlets handling these taxed products and to difficulties in distinguishing between taxable and nontaxable sales in the ordinary drugstore.

Both the House bill and your committee's bill repeal the tax on toilet preparations. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $210 million in a full year.

4. Luggage, handbags, etc. (sec. 101 of the bill and sec. 4031 of the code)

Present law imposes a tax equivalent to 10 percent of the retail sales price on ladies' handbags and many different forms of luggage. The items subject to tax are set forth in table 7.

TABLE 7.—*Articles subject to 10-percent tax on luggage, handbags, etc.*

Bathing suit bags
Beach bags or kits
Billfolds
Briefcases
Brief bags
Camping bags
Card and pass cases
Collar cases
Cosmetic bags and kits
Dressing cases
Dufflebags
Furlough bags
Garment bags designed for use by travelers
Hat boxes designed for use by travelers
Haversacks
Key cases or containers
Knapsacks
Knitting or shopping bags (suitable for use as purses or handbags)
Makeup boxes
Manicure set cases
Memorandum pad cases (suitable for use as card or pass cases, billfolds, purses, or wallets)
Musette bags
Overnight bags
Pocketbooks
Purses and handbags
Ring binders, capable of closure on all sides
Salesmen's sample or display cases, bags, or trunks
Satchels
Shoe and slipper bags
Suitcases
Tie cases
Toilet kits and cases
Traveling bags
Trunks
Vanity bags or cases
Valises
Wallets
Wardrobe cases

This retailers' excise tax covers a wide range of items of varied types and uses yet produces revenues of less than $100 million a year. Administrative compliance costs are high and the impact of the tax in the case of such items as ladies' handbags and men's wallets is regressive.

Both the House bill and your committee's bill repeal the retailers' excise tax on luggage, handbags, etc. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $90 million a year.

E1530
Exhibit 270B

EXCISE TAX REDUCTION ACT

B. MANUFACTURERS' EXCISE TAXES

1. Passenger automobiles (sec. 201 of the bill and sec. 4061 of the code)

Present law imposes a 10-percent tax on sales, by a manufacturer (or importer), of passenger automobiles, trucks, truck tractors, buses, trailers and semitrailers (but not house trailers). For purposes of imposing this tax, chassis and bodies of automobiles and trucks are separately classified.

The tax on trucks, buses, and truck and bus trailers is allocated to the highway trust fund and, except for structural amendments described in part V of this report, is not dealt with in this bill.

The proposal of the administration would have reduced the tax on passenger cars by 3 percentage points on July 1, 1965; 1 percentage point on January 1, 1966; and 1 additional point on January 1, 1967. Thus, the administration proposal would have left the tax on passenger automobiles at a permanent rate of 5 percent.

The House bill was in accord with the administration proposal with respect to the changes made effective on July 1, 1965, and January 1, 1966. Thus, as of July 1, 1965, it would have reduced the passenger car tax from 10 to 7 percent and on January 1, 1966, it would have reduced the tax 1 point further to 6 percent. However, it would have reduced the tax to 4 percent effective January 1, 1967, 2 percent effective January 1, 1968, and repealed the tax effective January 1, 1969.

The House repealed the entire tax on passenger cars rather than retain the 5 percent as recommended by the administration primarily because it did not believe it was appropriate to select this tax alone for retention when all other excise taxes except those considered to be user charges, regulatory taxes, or sumptuary taxes are repealed. Despite this, the House concluded that it was undesirable to make too large a decrease in the tax as of any one time. It was noted, for example, that the prices of new cars have an important bearing on the prices of used cars in the hands of dealers and owners. Too sharp a reduction in the tax on new cars at any one time might, therefore, produce severe dislocations in the used car market. Additionally, any substantial rate reduction scheduled any appreciable time in advance could be expected to have the effect of discouraging purchases in the interval before the reduction takes place. It was for this reason that the so-called consumer refund (described below), which your committee has retained, is provided with the 3-percentage-point reduction scheduled for July 1, 1965, under the House bill or the day after the date of enactment under your committee's bill. Because consumers might postpone purchases and because of the impact of the tax reduction on the used car market, the House concluded that future reductions in any one year should be limited to 2 percentage points.

Your committee is in general accord with the House with respect to this tax reduction. This willingness of your committee to agree to the elimination of most of the tax on passenger cars is based on the statement by the automobile manufacturers that they will pass the benefits of any reductions they receive on to the dealers and that the full amount of the reduction will be reflected in their suggested prices for the purchasers from the dealers. The pledges received from the manufacturers to do this are presented in Appendix A.

E1531
Exhibit 270B

Nevertheless your committee concluded that it would be appropriate to retain a small portion of this tax and set it aside for use in the disposition of old and wrecked automobiles. Your committee also concluded that the full reduction should not be made unless the automobile manufacturers design and equip automobiles to provide specified safety features to protect persons against injury and death.

To meet these conditions, your committee has provided that 1 percentage point of the tax on passenger automobiles is to be retained and with respect to amounts received in the fiscal year 1966 (in the case of liabilities incurred after June 30, 1965) and subsequent years set aside in a fund to be known as the Old and Wrecked Automobile Disposal Fund. From this fund appropriated moneys are to be available for expenditure by the President for carrying out a program to alleviate the blight existing along many of the Nation's highways and in many of its open spaces, caused by the ever-increasing number of aged and wrecked motor vehicles which have been abandoned or relegated to scrap or salvage. Under this program it is intended that the President would be enabled to make payments to individuals, corporations, or other private entities and to public bodies or instrumentalities to carry out procedures for the alleviation of this blight. The President is specifically required in this program to take into account the effect of his action on the market price of iron and scrap steel.

As a result of this action taken by your committee, the reduction of the passenger car tax rates scheduled by the House would be modified to retain on January 1, 1967, and thereafter, one more percentage point of tax than provided by the House bill. Thus, your committee's bill provides the following schedule of passenger car tax rates in the case of cars which meet the safety standards (described below) also required by your committee's bill:

Period:	Applicable rate (percent)
For the period beginning the day after the enactment of the bill and ending Dec. 31, 1965	7
Jan. 1, 1966, to Dec. 31, 1966	6
Jan. 1, 1967, to Dec. 31, 1967	5
Jan. 1, 1968, to Dec. 31, 1968	3
Jan. 1, 1969, and thereafter	1

It will be noted that the first two rates in the above schedule are the same as proposed by the President and the same as in the House bill. Thereafter, the rate schedule provided by your committee's bill is at all times 1 percentage point higher than the schedule in the House bill in order to provide for the fund for old and wrecked automobile disposal. Thus, after 1968 the tax on passenger automobiles will not be eliminated as under the House bill, but will be continued at a rate of 1 percent of the manufacturer's, producer's, or importer's selling price.

As is indicated above, part of the rate reductions described above will not be available under your committee's bill unless certain safety standards are met. Thus, unless the prescribed safety devices are provided on the passenger car, the tax rate, with respect to automobile chassis and bodies sold, will never decrease below the 5-percent level. Thus, in effect, 4 per-

E1532
Exhibit 270B

centage points of the tax reduction ultimately is dependent upon compliance with the safety standards prescribed.

The safety standards required are those which would be required (under Public Law 88–515, passed August 30, 1964) if the automobile were purchased for use by the Federal Government and conformed with the commercial standards prescribed by the Administrator of General Services under Public Law 88–515. The safety specifications the GSA proposes to require under its initial regulations are designed to help avert collisions initially and also if a collision does occur, to minimize the effect of the crash momentum and effect. In addition, exhaust emission control standards are established in conformance with California Test Procedure and Criteria for Motor Vehicle Exhaust Emission Control. The standards initially proposed to help prevent the collision are:

1. Dual operation of brake system.
2. Safe tires and safety rims.
3. Standard gear quadrant—PRNDL (park, reverse, neutral, drive, and low) for automotive vehicles equipped with automatic transmissions.
4. Glare reduction surfaces (instrument panel and windshield wipers).
5. Design of windshield wipers-washers.
6. Backup lights.
7. Outside rearview mirror(s).
8. Four-way flasher (hazard-warning signal light system).

To minimize the crash momentum and to protect the occupants, the GSA proposed standards also require the following:

1. Anchorages for seat-belt assemblies.
2. Padded instrument panel and visors.
3. Recessed instrument panel instruments and control devices.
4. Impact-absorbing steering wheel and column displacement.
5. Safety door latches and hinges.
6. Anchorage of seats.
7. Safety glaring materials (safety glass).
8. Standard bumper heights.

These 16 specifications, plus the exhaust emission control system, previously referred to, represent 17 safety features initially proposed to be required. The GSA will, of course, be in a position from time to time in the future to require additional safety features on passenger cars if the 4 percentage points of the manufacturers' tax is not to apply. These safety-feature requirements, and the conditional excise tax reduction described above are to apply not only to domestically produced passenger autos, but to foreign vehicles as well.

Combination of chassis and body.—Since the 10-percent manufacturers' excise tax is retained for truck and bus chassis, bodies, and trailers, while the rates applicable to passenger car chassis and bodies are gradually reduced to 1 percent, questions may arise with respect to the imposition of tax on the sale of a chassis which may be used interchangeably with either a passenger automobile or truck body. To provide for such cases, both the House bill and your committee's bill amend the statute to provide that the sale of a passenger automobile is to be considered as a sale of a passenger car chassis and of a passenger car body. A similar rule is provided in the case of a sale of a truck or bus. Thus, where the completed unit is a

E1533
Exhibit 270B

passenger car, the chassis will be classified as a passenger car chassis even though it could have been used with a truck body. Where a chassis is sold by the manufacturer without a body being mounted on it, it is intended that the category for the chassis be determined on the basis of all of the facts available including the predominant use of such types of chassis in the industry.

Consumer refunds.—In the case of new automobiles sold to ultimate purchasers on or after May 15, 1965, and before the day after enactment (July 1 under the House bill), both the House bill and your committee's bill make provision for consumer refunds equal to the 3-percentage-point reduction effective on the day after the date of enactment of the bill (or July 1 under the House bill). For this purpose a dealer is considered to be an ultimate purchaser of cars which he uses as demonstrators. The bill provides that the Government will refund or credit to the manufacturer or importer of the passsenger car an amount equal to the 3 percentage points of tax paid by the manufacturer or importer on his sale of the article. However, to obtain this credit or refund, the manufacturer or importer must file a claim with the Treasury Department on or before February 10, 1966, based on the information submitted to him before January 1, 1966, by the dealer who sold the passenger car to the ultimate purchaser. Also on or before February 10, 1966, the ultimate purchaser must be reimbursed for this 3 percentage points of the tax paid with respect to the passenger car he purchased during the interval from May 15 to the date of the tax reduction.

It is expected that in the case of a consumer who purchases a passenger car between May 15 and the date of the tax reduction, the dealer will inform him that, if the excise tax reduction bill is enacted as scheduled, he will be refunded the amount of the reduction in tax paid by the manufacturer or importer on the passenger car. The dealer will notify the manufacturer of the specific automobiles he sold during this post-May 14 period. This notification to the manufacturer as to the persons qualifying for consumer refunds will have to reach the manufacturer before January 1, 1966. This gives the manufacturer time to process the claims, make reimbursement, and file his overall claim with the Internal Revenue Service by February 10, 1966. Since this is the time he also usually files a quarterly excise tax return, these amounts can be claimed as credits against the tax otherwise due. The reimbursement by the manufacturer can be made directly by him to the consumer or may be made through the dealer who originally sold the article. The time the sale was made to the consumer for purposes of this refund will be determined on the basis of when the consumer obtained possession of the passenger car; that is, whether before or on or after May 15. The amount of the tax refund to be made will be computed on the basis of the manufacturer's sales price exclusive of tax.

Floor stock refunds.—Floor stock refunds with respect to the passenger car tax will also be made available with respect to passenger cars in dealers' inventories on the various reduction dates for the passenger car tax. These are the day after the date of enactment (July 1, under the House bill), January 1, 1966, January 1, 1967, January 1, 1968, and January 1, 1969. This credit or refund with respect to dealers' floor stocks is available

E1534
Exhibit 270B

with respect to passenger cars sold by the manufacturer or importer before the tax reduction date, which are held by the dealer on that date, and which have not been used and are intended for sale by him. The credit or refund for these floor stocks must be claimed by the manufacturer or importer of the passenger automobile on or before the 10th day of the 8th month after the reduction date based upon reports he obtained from the dealer before the 1st day of the 7th month after the reduction date. Also on or before the 10th day of the 8th month after the reduction, the manufacturer or importer must have reimbursed the dealer for the tax reduction or obtained his written consent to the allowance of the refund or credit. The amount to be credited or refunded will be the difference between the manufacturer's sales price exclusive of the amount of the tax reduction and his sales price including the tax, or the amount refunded if smaller. Where approved by the Internal Revenue Service, formulas approximating the sales prices may be used.

Revenue effect.—Under both the House bill and your committee's bill, the 3-percentage-point reduction to be effective in late June or July 1, 1965, is expected to reduce revenues by $570 million a year when fully effective. Also the 1-percentage-point reduction effective under both versions of the bill on January 1, 1966, when fully effective, is expected to reduce revenues by $190 million a year. On January 1, 1967, your committee's bill provides for a further 1-percentage-point reduction, resulting again in an annual revenue loss of $190 million as contrasted to the $380 million reduction provided under the 2-percentage-point reduction under the House bill. The remaining reductions of 2 percentage points a year on January 1, 1968 and 1969, under both versions of the bill (under your committee's bill contingent on the compliance with safety standards) are expected to result in a further annual revenue loss of $380 million in each of these years. Thus the revenue loss when all of the reductions are fully effective under your committee's bill is expected to be about $1.7 billion, assuming full compliance with safety standards. This can be contrasted with the revenue loss of $1.9 billion a year under the House version of the bill.

2. Automobile parts and accessories (sec. 201 of the bill and sec. 4061 of the code)

Generally, parts and accessories for automobiles, trucks, etc., are, when sold separately, presently subject to an 8-percent tax based upon the manufacturer's or importer's price. Tires and inner tubes and automobile radio and television receiving sets presently are subject to other taxes in lieu of the auto parts tax. However, to the extent of the manufacturer's markup on these parts, the auto tax in effect applies here also when they are included as original equipment.

The automobile parts and accessories tax is an undesirable tax because it is regressive in its impact on the incomes of purchasers and an estimated 30 percent of this tax represents a business cost item. In addition, this tax presents serious compliance and administrative burdens because of the large number of taxpayers. It is estimated that there are close to 8,000 manufacturers or importers of automobile parts and accessories, which is many times the number of taxpayers involved in any other manufacturers' excise tax except those on gasoline.

E1535
Exhibit 270B

LEGISLATIVE HISTORY

For the reasons indicated above, both the House bill and your committee's bill repeal the general 8-percent tax on automobile parts and accessories. However, the 8-percent manufacturer's excise tax on automotive parts and accessories is continued by both versions of the bill during the remainder of 1965. At that time, the general parts and accessories tax is repealed but, as indicated below, the 8-percent tax will continue to apply to truck parts and accessories until October 1, 1972, at which time the rate will revert to the permanent rate of 5 percent.

Parts and accessories included as original equipment on automobiles will continue to be included in the base of the passenger car tax. Although the 10-percent radio and television set tax is repealed as of the day after the date of enactment of this bill, the 8-percent auto parts and accessories tax will apply to these automobile radio and television sets for the period from this date to January 1, 1966, the date of the repeal of the general tax on automobile parts and accessories. (The radio and television floor stock refund in these cases will therefore be limited to 2 percentage points.)

Tax on truck parts.—Both the House bill and your committee's bill, although repealing the general tax on automobile parts and accessories, retain the present 8-percent manufacturer's tax on truck and bus parts and accessories. Since the tax on trucks and buses is considered a highway user charge and allocated to the highway trust fund, your committee agrees with the House that it is also appropriate to classify the tax on truck and bus parts as a highway user charge. In addition it believes that attempts might be made to avoid the truck tax by selling parts separately if no tax were imposed on truck parts. Both versions of the bill, therefore, retain this tax and assign it to the highway trust fund effective January 1, 1966.

The taxable truck or bus part or accessory is one which is not suitable for use (or is not ordinarily used) on or in connection with, or as a component part of, a passenger automobile (or trailer used with a passenger car) or house trailer. Under this definition, parts and accessories which are used interchangeably on automobiles and trucks (or buses) will not be taxed. For example, a battery which ordinarily is used in either an automobile or a light truck will not be taxed as a truck part although a heavy duty battery which ordinarily is used only in a truck will be so taxed.

It has come to your committee's attention that most manufacturers of light and medium trucks also produce a complete line of passenger cars and that many of the parts and accessories which they manufacture or purchase may be used interchangeably on their trucks and their line of passenger cars. However, there are other manufacturers who produce light and medium trucks which are competitive with the comparable trucks produced by the larger group of manufacturers. But these latter manufacturers do not produce any, or produce incomplete, lines of passenger cars which would use the same parts and accessories. As a result, many of the parts and accessories manufactured by these manufacturers are not interchangeably used in their passenger cars. It is your committee's intention that these parts and accessories be deemed "suitable for use" on passenger cars within the meaning of the statute and, therefore, exempt from the truck part tax if they are comparable to parts and accessories of other manufacturers which are interchangeably used in their trucks and passenger cars.

E1536
Exhibit 270B

EXCISE TAX REDUCTION ACT

No floor stock refunds.—The House bill made provisions for floor stock refunds with respect to parts and accessories (other than truck parts and accessories) held in dealers' inventories on January 1, 1966. Your committee, after considering this matter, has concluded that floor stock refunds in this case are not appropriate. It has concluded that the very large number of manufacturers and the many more thousands of wholesalers, jobbers, and retailers in this line of business make it difficult to determine the proper amount of the refund in each case. This is compounded by the fact that manufacturers sell auto parts and accessories in many different ways. Thus, if the wholesaler or jobber or garage or filling station does not keep these parts separately upon the basis of from whom obtained, he may not be able to determine how large a refund to request. This is true because the price may differ in these various cases according to the markup involved in the particular distribution process followed. For these reasons, your committee concluded that provision for floor stock refunds in the case of automotive parts and accessories was not feasible and has deleted provision for these floor stock refunds from the bill.

Revenue effect.—It is estimated that the repeal of the tax on parts and accessories for automobiles will reduce revenues by $230 million a year. Assignment of the revenues derived from the tax on truck parts and accessories to the highway trust fund will reduce general fund revenues by an additional $20 million a year but increase the revenues of the highway trust fund by a like amount.

3. Lubricating and cutting oils (sec. 202 of the House bill and sec. 4091 of the code)

Sales by the manufacturer of cutting oils are taxed under present law at the rate of 3 cents a gallon and sales of other lubricating oils at the rate of 6 cents a gallon.

The House bill, in effect, removed the tax on all lubricating oils except those used in highway motor vehicles. In the case of cutting oil, this would be accomplished by exempting such oil from tax. In the case of other lubricating oil, the 6-cents-per-gallon manufacturers' excise tax would be continued. However, when this lubricating oil would be used in other than highway motor vehicles, the user could obtain a refund with respect to the amount of tax paid. The procedures for obtaining these refunds would be similar to those now in effect with respect to gasoline used for nonhighway purposes. Generally, a refund could be claimed directly from the Government by the ultimate user on an annual basis.

Under the House bill, the revenue collected from the lubricating oil tax—to the extent not refunded for nonhighway use—would be assigned to the highway trust fund.

Your committee has decided to restore the 3 cents a gallon tax on cutting oils and retain the 6 cents a gallon tax on other lubricating oils with no refund provision for nonhighway use.

The House recognized that the outright repeal of this tax might present problems for the re-refiners of oil who presently are not subject to the lubricating oil tax and whose profit margin generally is smaller than the amount of this tax. The House recognized that to repeal this tax outright would drive many re-refiners out of business and it was noted

E1537
Exhibit 270B

that this would have the effect of encouraging the dumping of used oils in our streams rather than salvaging it through re-refining.

It was pointed out to your committee that much the same type of problem exists in the case of nonhighway use. Re-refined oil is also used by the railroad industry and in the manufacture of nontaxable grease. In addition, cutting oils used by industry also in some cases are re-refined and reused as cutting oils. Thus, retaining the tax on lubricating oils used for highway purposes alone does not completely remove the competitive problem of the re-refining industry nor remove the encouragement to dump used oil. It was for these reasons that your committee fully restored the present tax in the case of cutting oils and other lubricating oils. Since much of this tax, as reconstituted by your committee, is not basically a highway use revenue, your committee also removed the provision in the House bill which would have allocated this revenue source to the highway trust fund.

As compared to present law, the changes made by your committee with respect to lubricating oil will have no effect. However, when compared to the action taken by the House, the action taken by your committee will restore approximately $28 million a year in revenue. In addition, it will retain approximately $50 million a year in the general fund which under the House bill would be transferred to the highway trust fund.

4. Refrigerators, freezers, and air-conditioning units (sec. 202 of the bill and sec. 4111 of the code)

Section 4111 of the Internal Revenue Code imposes a 5-percent manufacturers' excise tax on sales of household type refrigerators, freezers, and quick-freeze units and a 10-percent manufacturers' excise tax on sales of self-contained air-conditioning units.

Present living standards have made the refrigerator a standard household item. This is true to a lesser extent of household type freezers. As a result, the burden of these taxes is regressive in its application on various income levels, falling relatively more heavily on low-income families and on families purchasing their first home. In the case of self-contained air-conditioning units, since the present tax does not apply to central air-conditioning units, there is discrimination against the window type unit as contrasted to the larger, more expensive types.

For the reasons indicated above, both the House bill and your committee's bill repeal the manufacturers' excise tax on refrigerators, freezers, quick-freeze units, and self-contained air-conditioning units. The House bill repeals the tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

In the case of air conditioners, because sales tend to be concentrated heavily in the months of May and June—approximately 40 percent of the total year's sales—the bill makes provision for refunds to the consumers for the tax paid on units purchased on or after May 15, 1965, and before the day the tax is repealed. The procedure for processing these consumer refunds will be essentially the same as that described previously in the case of passenger automobiles.

Floor stock refunds will be made to dealers with respect to their inventories on hand of any of the items referred to above at the time the

E1538
Exhibit 270B

taxes are repealed. The procedure is essentially the same as that previously described in the case of the passenger car tax.[1]

It is estimated that this provision will reduce revenues by $75 million in a full year.

5. Electric, gas, and oil appliances (sec. 202 of the bill and sec. 4121 of the code)

A 5-percent tax is imposed under present law on the price for which manufacturers or importers sell various electric, gas, and oil appliances of the household type. The taxed items are listed in table 8.

TABLE 8.—*Electric, gas, and oil appliances subject to 5-percent appliance tax*

- Electric, gas, or oil water heaters
- Electric flatirons
- Electric air heaters (not including furnaces)
- Electric immersion heaters
- Electric blankets, sheets, and spreads
- Electric, gas, or oil appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises
- Electric mixers, whippers, and juicers
- Electric direct-motor and belt-driven fans and air circulators
- Electric exhaust blowers
- Electric or gas clothes driers
- Electric door chimes
- Electric dehumidifiers
- Electric dishwashers
- Electric food choppers and grinders
- Electric hedge trimmers
- Electric ice cream freezers
- Electric mangles
- Electric pants pressers
- Electric, gas, or oil incinerator units and garbage disposal units
- Power lawnmowers

The electric, gas, and oil appliances now subject to tax include many basic items of household equipment. As a result, as might be expected, the distribution of the burden of these taxes is regressive, bearing relatively more heavily on low-income groups. Both the House bill and your committee's bill, therefore, repeal this tax on electric, gas, and oil appliances. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds in the same manner as in the case of passenger cars.[2] A special problem in floor-stock refunds occurs in the case of appliances and some of the other taxed articles. This involves combination appliances, such as washer-dryers. These are held to be subject to tax when the manufacturer "uses" the dryer to combine it with the washer, rather than when the combination is sold. The tax paid on such appliances is to be eligible for a floor-stock refund since such "use" by the manufacturer will be considered a sale for this purpose.

It is estimated that this provision will reduce revenues by $85 million a year in a full year of operation.

6. Electric light bulbs (sec. 202 of the bill and sec. 4131 of the code)

Under existing law, a tax is imposed on the manufacturer or importer of electric light bulbs and tubes equal to 10 percent of the price for which the manufacturer or importer sells the items.

This tax both is imposed upon an essential household item and also substantially affects business costs. It has been estimated that approximately

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[1] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

[2] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

E1539
Exhibit 270B

65 percent of these items are used for business purposes. Both because of the bulbs' essential character as household necessities and the tax's significance as a business cost, this tax on electric light bulbs is a highly regressive tax, bearing much more heavily on families with relatively low income levels.

Both the House bill and your committee's bill repeal this tax, effective January 1, 1966.

Your committee has made one technical amendment to the House bill applicable in the case of electric light bulbs. Electric light bulbs or tubes sometimes are used in other articles, such as the bulbs which light the interior of refrigerators when the doors are opened, lamps in the panel or hood of electric or gas ranges, and minature bulbs usually used in radios or television sets, as well as bulbs used in other household appliances or business machines. Under present law, these electric light bulbs or tubes can be sold or used for incorporation in such taxable articles without the payment of tax on the sale of the bulbs. Both the House bill and your committee's bill, however, repeal the tax on these various appliances effective either on July 1 or the day after the date of enactment of this bill. However, the tax on electric light bulbs remains in effect until January 1, 1966. Therefore, under the House bill, a tax would be applicable to bulbs sold or used for incorporation in these appliances for approximately the 6-month interval ending on December 31, 1965. As a result, manufacturers who in the past have been purchasing these bulbs tax free would for this interval have to change their purchasing procedures to buy the bulbs on a tax-paid basis. In addition, bulbs which they previously have purchased but which they use in this period would become taxable upon use by the manufacturer in these appliances which are no longer subject to excise tax. Your committee concluded that it was undesirable to impose these new procedures with respect to these purchases and uses of electric light bulbs for this limited period of time. The minimal amount of revenue obtained from newly imposing tax in these cases is not worth the administrative bother to the manufacturers and the Internal Revenue Service in establishing the new procedure. Therefore your committee's bill provides that bulbs which are sold, or used in appliances during this approximately 6-month interval until January 1, 1966, can still be sold or used free of tax, for this limited period of time, in these appliances which previously were taxable.

Provision is made for floor stock refunds in a manner similar to that indicated previously with respect to passenger cars.

It is estimated that this provision will reduce revenues by $45 million a year in a full year of operation.

7. Radio and television sets, phonographs, records, etc. (sec. 203 of the bill and sec. 4141 of the code)

Present law imposes upon the sale by the manufacturer or importer a tax of 10 percent of the manufacturers' price with respect to radios, television sets, phonographs, radio and television components, and records. The full description set forth in the code is shown in table 9.

E1540
Exhibit 270B

TABLE 9.—*Items subject to 10-percent radio, television, etc., tax*

- Radio receiving sets
- Automobile radio receiving sets
- Television receiving sets
- Automobile television receiving sets
- Phonographs
- Combinations of any of the foregoing
- Radio and television components
- Phonograph records

The above listed items are a widely employed source of home and family entertainment. The manufacturers' excises imposed on these items have the effect of discriminating against these sources of entertainment relative to other such sources. Moreover, the taxes in general have a regressive impact, for while high-income families buy more expensive models, nearly every home contains a radio and a television set. The tax, therefore, represents a larger percentage of the low-income family's income.

For the reasons indicated above, both the House bill and your committee's bill repeal the tax on radios, television sets, etc. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds with respect to the above listed items in the same manner as that indicated previously in the case of passenger cars.[3]

It is estimated that this provision will reduce revenues by $255 million a year when fully effective.

8. Musical instruments (sec. 203 of the bill and sec. 4151 of the code)

Present law imposes a 10-percent tax on sales of musical instruments by the manufacturer or importer.

The manufacturers' excise tax on musical instruments has a discriminatory impact on sales of this particular type of item used in providing individual recreation and entertainment. Moreover, it has been pointed out that instruments purchased by individuals for use by students in school bands, etc., are taxed while instruments purchased by the schools for the use of students are exempt.

Both versions of the bill repeal the manufacturers' excise tax on musical instruments. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day beginning after the date of enactment of this bill.

Floor stock refunds.—Provision is made for floor stock refunds with respect to musical instruments in the hands of wholesale or retail dealers on the reduction date. In addition to musical instruments which the dealer holds on this date, floor stock refunds are also available with respect to musical instruments where, as of such date, possession has been transferred to a prospective purchaser of the article if the article is returned to the dealer and the amount paid is returned to the prospective purchaser (other than amounts to cover damages to the article and, of course, transportation charges). The article must have been returned to the dealer by July 31, 1965. In such cases (and in cases where the article was returned before the reduction date and is held by the dealer on that date) the article will be

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[3] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

E1541
Exhibit 270B

considered as not having been used. This exception to the requirement that the dealer have possession of the articles on the reduction date applies only if title to the musical instrument remains with the dealer. While the attention of your committee was called to the need for a provision of the above type in connection with musical instruments, this applies also in the case of refrigerators, freezers, and air-conditioning units; electric, gas, and oil appliances; radio and television sets; phonographs and related items; sporting goods (other than fishing equipment); photographic equipment, etc.; and business machines.

Revenue effect.—It is estimated that the repeal of the musical instrument tax will reduce revenues by $27 million in a full year of operation.

9. Sporting goods (sec. 204 of the bill and sec. 4161 of the code)

A wide variety of different types of items are subject to the 10-percent manufacturers' excise tax on sporting goods. These items are listed in table 10.

TABLE 10.—*Items subject to 10-percent sporting goods tax*

Badminton nets, rackets and racket frames (measuring 22 inches overall or more in length), racket string, shuttlecocks, and standards.
Billiard and pool tables (measuring 45 inches overall or more in length) and balls and cues for such tables.
Bowling balls and pins.
Clay pigeons and traps for throwing clay pigeons.
Cricket balls and bats.
Croquet balls and mallets.
Curling stones.
Deck tennis rings, nets, and posts.
Fishing rods, creels, reels and artificial lures, baits and flies.
Golf bags (measuring 26 inches or more in length), balls, and clubs (measuring 30 inches or more in length).
Lacrosse balls and sticks.
Polo balls and mallets.
Skis, ski poles, snowshoes, and snow toboggans and sleds (measuring more than 60 inches overall in length).
Squash balls, rackets and racket frames (measuring 22 inches overall or more in length), and racket string.
Table tennis tables, balls, nets, and paddles.
Tennis balls, nets, rackets and racket frames (measuring 22 inches overall or more in length), and racket string.

Present law singles out for tax selected items of sporting equipment while leaving others untaxed. Thus, this tax represents a discriminatory tax on limited forms of recreation.

Both the House bill and your committee's bill eliminate this source of discriminatory tax treatment by repealing the manufacturers' excise tax on all of the above listed items except fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles). The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill. The 10-percent manufacturers' excise tax on fishing equipment is continued because revenues equivalent to the tax on these items are distributed under the provisions of Public Law 681, 81st Congress, to aid the States in fish restoration and management having material value for sport and recreation.

E1542
Exhibit 270B

EXCISE TAX REDUCTION ACT

The House bill made no provision for floor stock refunds in the case of sporting goods. Your committee, however, believes that such a refund is desirable; and has added a provision achieving this effect.[4]

It is estimated that the repeal of the sporting goods tax (other than fishing equipment) will reduce revenues by $25 million in a full year of operation.

10. Photographic equipment (sec. 204 of the bill and sec. 4171 of the code)

Existing law imposes a 10-percent manufacturers' excise tax on sales of certain cameras, camera lenses, and unexposed photographic film (in rolls and including motion picture film). In addition, a 5-percent manufacturers' tax is imposed on the sales of electric motion or still picture projectors of the household type.

The taxes on photographic equipment impose a discriminatory burden on those making use of such equipment for recreational or entertainment purposes. Both the House bill and your committee's bill, therefore, repeal the manufacturers' excise tax on photographic equipment. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds in a manner similar to that provided for in passenger cars.[5]

It is estimated that the repeal of these taxes will reduce revenues by $40 million in a full year of operation.

11. Business machines (sec. 205 of the bill and sec. 4191 of the code)

Existing law imposes a 10-percent manufacturers' tax on the sale of some 44 different types of business machines. The types of machines with respect to which tax is imposed are listed in table 11.

TABLE 11.—*Items subject to 10-percent business machine tax*

- Adding machines
- Addressing machines
- Autographic registers
- Bank proof machines
- Billing machines
- Bookkeeping machines
- Calculating machines
- Card punch machines
- Cash registers
- Change making machines
- Check writing, signing, canceling, perforating, cutting, and dating machines and other check protector machine devices
- Computing machines
- Coin counters
- Dictographs
- Dictating machines
- Dictating machine record shaving machines
- Duplicating machines
- Embossing machines
- Envelope opening machines
- Erasing machines
- Folding machines
- Fanfold machines
- Fare registers and boxes
- Listing machines
- Line-a-time and similar machines
- Mailing machines
- Multigraph machines. typesetting machines and type justifying machines
- Numbering machines
- Portable paper fastening machines
- Payroll machines
- Pencil sharpeners
- Postal permit mailing machines
- Punch card machines
- Sorting machines
- Stencil cutting machines
- Shorthand writing machines
- Sealing machines
- Tabulating machines
- Ticket counting machines
- Ticket issuing machines
- Typewriters
- Transcribing machines
- Time recording devices
- Combinations of any of the foregoing

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[4] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

[5] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax on musical instruments.

E1543
Exhibit 270B

As is suggested by the name of the tax, substantially all of these machines represent business cost items. The burden of the manufacturers' excise tax on these machines is distributed among various firms upon the basis of the particular business requirements of each firm. This distribution is rendered even more erratic by the fact that many of the larger automatic data processing machines have been held not to be subject to this tax. To the extent that the costs of the taxable machines are reflected in product prices, the tax tends to distort relative prices of final goods. To the extent that the tax influences investment decisions, it tends to discourage the use of the taxed machines. In this manner, the tax tends to discourage the introduction of improved management and administrative techniques.

Both the House bill and your committee's bill repeal the manufacturers' tax on business machines. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

Provision is made for floor stock refunds in a manner similar to that indicated above in the case of passenger automobiles.[6]

It is estimated that the repeal of the excise tax on business machines will reduce revenues by $75 million in a full year of operation.

12. Pens, mechanical pencils, and lighters (sec. 205 of the bill and sec. 4201 of the code)

Mechanical pencils, fountain pens, and ballpoint pens are currently taxed at a rate of 10 percent of the manufacturers' or importers' sales price. The tax on lighters is 10 cents per lighter but not more than 10 percent of the manufacturers' or importers' sales price.

Your committee agrees with the House that it is undesirable to continue the tax on mechanical pencils, fountain pens, and ballpoint pens, most of which are used either by schoolchildren or in businesses. The tax on lighters is a nuisance tax bringing in only a minimal amount of revenue.

Both the House bill and your committee's bill, therefore, repeal the manufacturers' excise taxes on pens, mechanical pencils, and lighters. The House bill repeals these taxes effective July 1, 1965. Your committee's bill repeals these taxes as of the day after the date of enactment of this bill.

It is estimated that this provision will reduce revenues by $11 million in a full year of operation.

13. Matches (sec. 205 of the bill and sec. 4211 of the code)

Existing law imposes upon the manufacturer or importer of matches a tax at the rate of 2 cents per 1,000, but not to exceed 10 percent of the price for which sold. An exception is made in the case of fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem and packed in boxes, which are taxed at the rate of 5½ cents per 1,000 matches.

The tax on matches is quite regressive in the distribution of the tax burden among various income levels. Therefore, this tax tends to impose heavier burdens on those with relatively low incomes.

Both the House bill and your committee's bill repeal the excise tax on matches. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this

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[6] A special provision allows a refund in the case of articles transferred to another person if the article is returned within a specified period of time. This rule is described in connection with the description of the tax of musical instruments.

E1544
Exhibit 270B

bill. It is estimated that this will result in a revenue loss of approximately $4 million a year.

C. FACILITIES AND SERVICES

1. Admissions and cabarets (sec. 301 of the bill and sec. 4231 of the code)

Under existing law, in the case of general admissions a tax of 1 cent for each 10 cents (or major fraction thereof) is imposed on the amount in excess of $1 paid for admission to any place other than racetracks and cabarets. In the case of admission to a horse or dog racetrack, the tax is 1 cent for each 5 cents (or major fraction thereof). In the case of cabarets (including roofgardens or similar places) the tax is 10 percent of the amounts paid for admission, refreshment, service, or merchandise.

In the case of sales outside of the box office in excess of the established price for admissions to theaters, operas, and other places of amusement, a tax of 10 percent (or 20 percent in the case of racetracks) is imposed on the excess of the price charged over the established price. In the case of sales by proprietors, managers, or employees of an opera house, theater, or other place of amusement in excess of the regular or established price, a tax of 50 percent of this excess is imposed.

The present excise tax on general admissions is undesirable in that it selects certain types of entertainment for tax when many other forms of entertainment are free of tax. The present admissions tax with the $1 exclusion has its primary impact upon the cultural arts and professional athletic exhibitions. Your committee agrees with the House that there is no reason for continuing to tax these forms of entertainment while other forms are largely free of tax. In the case of the cabaret tax, it is believed that the tax tends to discourage the hiring of professional musicians. In addition, there are very difficult problems of administration and compliance in determining precisely under what conditions the cabaret tax applies or does not apply in the case of restaurants where entertainment is provided at some hours and not at others.

Both the House bill and your committee's bill repeal all of these taxes on admissions effective at noon on December 31, 1965. The end of the day was avoided in this case in order to select a time for termination of the tax when general admissions or entertainment at cabarets was likely to be at a low point. In the case of season tickets the tax will not apply with respect to the proportion of the total admissions occurring after such time. This, of course, will mean that there will be no tax on the football bowl games on New Year's day or on cabaret events on New Year's eve. Tax will not apply in these cases even though the tickets may have been purchased in advance of that date.

It is estimated that the repeal of all of the admissions taxes other than the tax on cabarets would result in a revenue loss of $55 million in a full year of operation. The repeal of the tax on cabarets would result in an additional loss of $47 million, raising the aggregate loss to $102 million in a full year of operation.

E1545
Exhibit 270B

2. Club dues (sec. 301 of the bill and sec. 4241 of the code)

Present law imposes a tax of 20 percent of the amounts paid as dues or membership fees to a social, athletic, or sporting club (if the total dues or fees paid exceed $10 a year). In the case of life memberships, the tax payable is the same as that of other members having privileges most nearly comparable to that of the life member; or, if the life member so elects, 20 percent of the amount paid for the life membership. Special provisions exempt from this tax amounts paid for capital improvements to the clubs provided the amounts are actually expended for such purposes within 3 years of the date of payment. Exemptions are also available in the case of dues paid to fraternal organizations and nonprofit swimming and skating clubs.

The present tax represents a tax on recreation which applies if the recreational outlet is a private club. Many other recreational facilities generally are not subject to excise tax. Moreover, the tax, which is substantial in this case, adds materially to the cost of club memberships, discouraging the formation and use of clubs. This is true not only of country clubs but also of other types of social or athletic clubs enjoyed by middle and lower income people.

Both the House bill and your committee's bill repeal the tax on club dues for payments attributable to periods beginning on or after January 1, 1966. Where the dues year straddles the effective date, the tax applies only to the dues (regardless of when paid) attributable to the portion of the year before that date. In the case of life memberships attributable in part to periods before 1966, in which the member has elected to pay a tax equal to 20 percent of the amount paid for the life membership, the full tax applies. However, in the case of life memberships where the tax is equivalent to the tax on amounts paid by members having privileges most nearly comparable to the life member, no tax will be due for periods beginning on or after January 1, 1966.

Where dues or membership fees attributable to periods beginning before January 1, 1966, have been free of tax because they were paid to be used for capital improvements, if they are not used for this purpose within 3 years of the date of payment, a tax is to apply since tax would have been due initially in the absence of the exemption.

It is estimated that the repeal of this tax will reduce revenues by $85 million in a full year of operation.

3. Communications (sec. 302 of the bill and sec. 4251 of the code)

Under existing law, amounts paid for general telephone, toll telephone, telegraph, teletypewriter exchange, and wire mileage service are taxed at the rate of 10 percent of the amounts paid for the service. A tax at the rate of 8 percent is imposed on amounts paid for wire and equipment service. The tax is paid by the person paying for the service.

(a) Rates of tax for local telephone service, toll telephone service, and teletypewriter exchange service.—Your committee agreed with the conclusion of the House that the tax on local and toll telephone service and teletypewriter exchange service is undesirable as a permanent feature of our excise tax system. This conclusion was reached on the grounds, first, that these taxes are regressive and therefore fall with greater severity on

E1546
Exhibit 270B

EXCISE TAX REDUCTION ACT

those with low incomes than those with higher incomes. Second, the charges for telephone services enter heavily into business costs. Therefore, the tax discriminates against those firms that must make extensive use of the taxed services. However, while elimination of the tax is desirable on the grounds listed above, since the tax is an important source of revenue for the Federal Government, the reduction should be staged over a period of years. Both versions of the bill, therefore, provide for the repeal of the communications service tax on local telephone service, toll telephone service, and teletypewriter exchange service over a period of 4 years. The first reduction, a substantial one, is a reduction of 7 percentage points effective January 1, 1966. In January of each of the three succeeding years, the rate is reduced by 1 percentage point. No tax, therefore, will apply for the calendar year 1969 and subsequent years. As a result, under both versions of the bill, the rate of tax on the three services will be reduced from the present level of 10 percent to—

3 percent for amounts paid pursuant to bills first rendered on or after January 1, 1966, and before January 1, 1967;

2 percent for amounts paid pursuant to bills first rendered on or after January 1, 1967, and before January 1, 1968; and

1 percent for amounts paid pursuant to bills first rendered on or after January 1, 1968, and before January 1, 1969.

The tax is not to apply to amounts paid pursuant to bills first rendered on or after January 1, 1969.

In applying the new tax rates referred to above, in the case of communication services rendered before November 1 of any calendar year for which a bill has not been rendered before the close of such year, a bill is to be treated as having been first rendered during such year. The existing 10 percent tax rate will continue to apply in the case of bills first rendered before January 1, 1966 (whether the services are rendered before, on, or after such date), and in the case of communication services rendered before November 1, 1965, even though the bill is first rendered on or after January 1, 1966.

The definitions of local telephone service (previously general telephone service), toll telephone service, and teletypewriter exchange service have been updated and modified to make it clear that it is the service as such which is being taxed and not merely the equipment being supplied. Thus, in the case of local telephone service, the definition makes it clear that it is the right of access to a local telephone system and the privilege of telephonic quality communication which is taxed together with facilities or services provided with this service. Toll telephone service is defined as being a telephonic quality communication for which a toll charge is made which varies in amount with the distance and the elapsed transmission time of individual communications, but only if the charge is paid within the United States. Also included in this definition of toll telephone service is WATS (wide area telephone service). This is a long-distance service whereby, for a flat charge, the subscriber is entitled to make unlimited calls within a defined area (sometimes limited as to the maximum number of hours). A teletypewriter exchange service is defined as access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part and the privilege of intercommunication by

E1547
Exhibit 270B

such station with substantially all persons having teletypewriter or other data stations in the same exchange system.

It is estimated that the reduction of the tax rate from 10 to 3 percent effective January 1, 1966, will result in a revenue loss of $639 million in a full year of operation. The elimination of the remaining 3 percentage points of tax over the next 3 years, it is estimated, will result in an additional revenue loss of $274 million when fully effective.

(b) Private communications services.—Under present law, a private communications system such as a private line or a private intercommunication system set up for a single subscriber (such as a PBX system or Centrex service) is taxed as a part of general telephone service if the telephones in this system have access to the local exchange system.

This has presented problems under present law because of competition from untaxed private equipment performing similar services. The telephone companies presently are losing intrapremise business (and interpremise business within local areas) to those providing telephone and microwave equipment which can be purchased and operated by the users themselves. Installation of equipment in this manner is accompanied by a reduction in the service from the local telephone company. Businesses installing their own internal communications system in this manner avoid the tax on the telephone company's charge for both equipment and services. With the ever-increasing number of varied services which modern science makes it possible for telephone companies to provide, the tax on private communication systems represents a severe competitive handicap to the expanded use of these new and varied services.

For the reasons indicated above, both the House bill and your committee's bill provide an exemption from the tax on local telephone service for private communications service if a separate charge is made for this service. It is understood that private lines and PBX systems generally will immediately qualify for this exemption. However, it is understood that Centrex systems—where the switching equipment is generally on the premises of the local exchange rather than on that of the subscriber—generally do not, as yet, provide for a charge which is separate and distinct from that for local telephone service. Until such a separation is made, this exemption, therefore, will not apply in the case of Centrex service.

The definition of a private communication service refers to a communication service where a subscriber is entitled to the exclusive or priority use of a communication channel or groups of channels. This is sometimes referred to as a private line. The reference to an intercommunications system is intended to refer to a private exchange system for a single subscriber and thus to cover private PBX systems (whether or not they have in-dialing). Included in the definition of a private communication system is channel mileage for communication between a telephone station located outside a local exchange system and a central office in such local telephone system, if a separate charge is made for this service.

This exemption is to take effect as of January 1, 1966.

Questions have been raised as to the application of this exemption to so-called answering services where, when the subscriber is not at home, the telephone is answered for him by the answering service. In such cases, it is understood that the line running to the answering service together with

E1548
Exhibit 270B

the board on which the signal is flashed is usable only for answering the subscriber's telephone. Where this is true, this line and the board provided in connection with it will be exempt from tax as a private communication service.

It is estimated that repeal of the tax on private communication services will reduce revenues by $130 million in a full year of operation.

(c) Telegraph service and wire and equipment service.—Telegraph service presently is subject to a tax of 10 percent of the amount paid while a tax of 8 percent is imposed on wire and equipment service. Wire and equipment service includes stock quotation and information services, burglar alarm and fire alarm service, and similar services.

In the case of telegraph service, the present tax presents an added handicap to an industry which has been experiencing a decline in business for a long period of time. The tax on wire and equipment service not only taxes the communication feature of the service, but other services provided as well. Moreover, in many cases, the services provided are in competition with similar services provided on a tax-free basis.

Because of the factors indicated above, both the House bill and your committee's bill repeal the tax on telegraph se[illegible]ire and equipment service effective January 1, 1966.

The repeal of the tax on telegraph service is e[illegible]esult in a revenue loss of $17 million a year when fully effectiv[illegible] the repeal of the wire and equipment service tax is expected to result in an annual revenue loss of $15 million a year.

4. Transportation of persons by air (sec. 303 of the bill and sec. 4261 of the code)

Under present law, a 5-percent tax is imposed on amounts paid within the United States for the taxable transportation of any person by air, and on amounts paid without the United States for transportation which begins and ends within the United States. Under existing law, this tax is scheduled to terminate on July 1, 1965.

The administration has pointed out that aviation should contribute a larger percentage of the cost of developing and maintaining the Federal airways. For this reason, the administration included among its recommendations with respect to aviation user charges the proposal that the present tax on the transportation of persons by air be continued to give assurance that commercial airline passengers would pay a portion of the cost of maintaining the service they enjoy.

Both the House bill and your committee's bill continue indefinitely the present 5-percent tax in order that it may be considered subsequently in connection with any review of administration proposals with respect to user charges. Your committee has also made a technical change in the application of the tax to military personnel in the case of trips originating or ending abroad. This change is described in part V of this report.

It is estimated that this provision will forestall a revenue loss of $140 million a year.

5. Safe deposit boxes (sec. 304 of the bill and sec. 4286 of the code)

Present law imposes a 10-percent tax on amounts collected for the use of safe-deposit boxes. The tax is paid by the person paying for the use of the box.

This item represents a tax on the safeguarding of essential papers. In addition, it produces so little revenue that its separate imposition can hardly be justified.

Both the House bill and your committee's bill repeal this tax effective with respect to rentals or renewals taking effect on or after July 1, 1965.

It is estimated that this provision will reduce revenues by $7 million in a full year of operation.

D. MISCELLANEOUS TAXES

1. Documentary stamp taxes (sec. 401 of the bill and secs. 4301, 4311, 4321, 4331, and 4361 of the code)

Present law imposes documentary stamp taxes on the issuance of capital stock and certificates of indebtedness, sales or transfers of capital stock and certificates of indebtedness, conveyances of realty, and premiums on insurance policies issued by foreign insurers. The taxes are imposed at the following rates:

> 10 cents per $100 or major fraction thereof of the actual value on the issuance of capital stock (4 cents per $100 in the case of stock in regulated investment companies);
>
> 11 cents per $100 or fraction thereof of face value on the issuance of certificates of indebtedness;
>
> 4 cents per $100 or major fraction thereof of actual value on the sale or other transfer of shares or certificates of stock, or rights to receive such shares, but in no case shall the tax exceed 8 cents per share or be less than 4 cents per transfer;
>
> 5 cents per $100 or fraction thereof of face value on each sale or other transfer of a certificate of indebtedness;
>
> 55 cents per $500 or fractional part thereof of the consideration or value (when it exceeds $100) for which realty is conveyed; and in the case of policies insured by foreign insurers, at varying rates.

The tax rates imposed on insurance policies issued by foreign insurers are not changed by either version of the bill. (However, as explained in part V, a technical change is made in the manner of paying this tax.)

The taxes are administered through the sale of stamps.

The Federal documentary stamp taxes are frequently business cost items. In addition, they complicate the large variety of security transactions to which they apply. In the case of real estate conveyances, there is no effective means of Federal administration. Therefore, your committee agrees with the House conclusion that this latter tax could better be left to the administration of State or local governments.

Both the House bill and your committee's bill repeal the documentary stamp taxes on the issuance of stock and certificates of indebtedness, on sales or transfers of stock and certificates of indebtedness, and on conveyances of real estate. The bill does not affect the existing rate of tax imposed with respect to insurance policies issued by foreign insurers. (But

E1550
Exhibit 270B

see the explanation in pt. V of the committee amendment changing the method of reporting and paying the tax.)

The House bill would repeal all of the documentary stamp taxes (except those on insurance policies of foreign insurers) as of January 1, 1966. Your committee has advanced by 1 day the date of repeal of the taxes on the issuance of capital stock and certificates of indebtedness and on sales or transfers of capital stock and certificates of indebtedness. Thus, in the case of issuances or transfers of stock or certificates of indebtedness occurring on December 31, 1965, there will be no documentary stamp tax due. Your committee has taken this action to prevent a substantial tax differential between those transactions which must be completed before the end of the year and those which can be completed at any time thereafter. In the case of the stamp tax on real estate conveyances, the attention of your committee was called to the fact that this tax often is used by local assessment authorities in determining changes in value of real estate in their locales. For that reason, States may want to impose this tax, or adopt alternative valuation procedures, as the Federal Government removes itself from this field of taxation. To be sure States have sufficient time to accomplish this result, and in accordance with recommendations of the Advisory Commission on Intergovernmental Relations, your committee has postponed the effective date of the repeal of this tax until January 1, 1969.

It is estimated that these provisions will reduce revenues by $195 million in a full year of operation.

2. Playing cards (sec. 402 of the bill and sec. 4451 of the code)

Under existing law, a tax of 13 cents per pack is imposed on every pack of playing cards (containing not more than 54 cards) at the time of its sale or withdrawal for consumption or sale. The tax is administered through the sale of stamps which are affixed to the packs of cards.

In the interest of removing minor excise taxes, both the House bill and your committee's bill repeal this tax. The House bill repeals this tax effective July 1, 1965. Your committee's bill repeals the tax as of the day after the date of enactment of this bill.

It is contemplated that inventories of stamps not yet affixed to playing cards which are on hand on the reduction date, can be returned to the Internal Revenue Service and the amount paid for them refunded. In addition, it is understood that the amounts paid for stamps affixed to playing cards by manufacturers or importers will be refunded without removal of the stamps where the manufacturer or importer has not yet sold or removed the cards for consumption or sale on the reduction date. The House, however, made no provision for floor stock refunds in the case of playing cards in the hands of wholesalers or retailers. Your committee believes that floor stock refunds should be made available with respect to playing cards as in the case of most of the manufacturers' excise taxes. For that reason, it has added a provision to achieve that effect.

It is estimated that the repeal of this provision will reduce revenues by $11 million a year.

E1551
Exhibit 270B

3. Coin-operated amusement devices (sec. 403 of the bill and sec. 4461 of the code)

Under existing law, an occupational tax must be paid by every person who maintains or permits the use of coin-operated amusement devices at any place or premise occupied by him. The tax is assessed at the rate of $10 a year for each device. A coin-operated amusement device includes music machines operated by coins or similar objects, penny vending machines which dispense merchandise prizes worth not more than 5 cents, and amusement machines not including gambling devices.

The occupational tax on coin-operated amusement devices is essentially a tax on a form of entertainment which does not constitute gambling. As taxes on other forms of entertainment (to the extent now taxed) are repealed by both versions of this bill; both the House bill and your committee's bill have also repealed the $10-a-year tax on coin-operated amusement devices. No change is made in the present $250-a-year tax on coin-operated gambling devices (such as slot machines).

The repeal of this tax in both versions of the bill is made effective as of July 1, 1965.

It is estimated that the repeal of this tax will reduce revenues by $6 million in a full year of operation.

4. Bowling alleys, billiard and pool tables (sec. 404 of the bill and sec. 4471 of the code)

Currently every person who operates a bowling alley, billiard parlor, or poolroom must pay an occupational tax at the rate of $20 a year with respect to each alley or table.

Consistent with the treatment provided in this bill for other entertainment and recreation items (other than those which involve gambling), both the House bill and your committee's bill repeal the occupational tax on bowling alleys and billiard and pool tables.

The effective date of the repeal of this tax in both versions of the bill is July 1, 1965.

It is estimated that the repeal of this tax will reduce revenues by $7 million a year.

E. ALCOHOLIC BEVERAGE AND TOBACCO TAXES

1. Rates made permanent (sec. 501 of the bill and secs. 5001, 5022, 5041, 5051 and 5701 of the code)

At the time of the Korean war, the taxes on distilled spirits, beer, wine, and cigarettes were increased by varying amounts. These increases, however, applied only until April 1, 1954. These rates have been continued on a year-to-year basis since that time. Currently, these rates are scheduled, on July 1, 1965, to revert to the rates applicable before the Korean war.

In the case of the tax on distilled spirits, in the absence of this bill, the tax would be reduced from $10.50 to $9.00 per proof gallon. In the case of beer, the tax would be reduced from $9.00 to $8.00 per barrel. In the case of wines, which are subject to various tax rates, the reduction would

E1552
Exhibit 270B

be approximately 11 percent. In the case of cigarettes, the tax would be reduced from 8 cents to 7 cents a pack. The specific rates are shown in table 12.

It is estimated that retaining the present taxes on distilled spirits will prevent a revenue loss of $203 million; in the case of beer, a loss of $104 million; and in the case of wines, a loss of $12 million. Retaining the present tax on cigarettes will prevent a revenue loss of $262 million.

Your committee agrees with the House that given present revenue requirements, it is desirable to retain these taxes at their present rates. Should further excise reductions be desirable in the future, these rates of tax can be reviewed at that time.

For the reasons indicated above, both the House bill and your committee's bill make the present tax rates on distilled spirits, beer, wines, and cigarettes part of the permanent law. They also repeal the floor stock refund provisions in the present law which were to apply in the case of these taxes were the rates to be reduced as provided under present law.

E1553
Exhibit 270B

Table 12.—*Present tax rates on alcoholic beverages and tobacco, which under the bill are retained on a permanent basis*

	Unit of tax	Present law rate	Rates scheduled for July 1, 1965, in absence of bill
Liquor taxes:			
Distilled spirits	Per proof gallon	$10.50	$9.
Beer	Per barrel	$9	$8.
Wine:			
Still wine			
Containing not over 14 percent alcohol	Per wine gallon	17 cents	15 cents.
Containing over 14 to 21 percent alcohol	do	67 cents	60 cents.
Containing over 21 to 24 percent alcohol	do	$2.25	$2.
Containing more than 24 percent alcohol	do	$10.50	$9.
Sparkling wines, liqueurs, cordials, etc.:			
Champagne or sparkling wine	do	$3.40	$3.
Liqueurs, cordials, etc.	do	$1.92	$1.60.
Artificially carbonated wines	do	$2.40	$2.
Tobacco taxes: Cigarettes	Per 1,000	$4	$3.50.

E1554
Exhibit 270B

2. Manufactured tobacco (sec. 502 of the bill and sec. 5701(a) of the code)

A tax of 10 cents per pound presently is imposed on tobacco manufactured in, or imported into, the United States. The revenues from this tax are derived chiefly from pipe tobacco, snuff, chewing tobacco, and tobacco used by individuals who roll their own cigarettes. This tobacco for tax purposes is known as manufactured tobacco and the tax imposed on it is separate from the taxes imposed on cigars, cigarettes, cigarette papers, and cigarette tubes. Table 13 shows the volume of sales of the different forms of manufactured tobacco sold in the fiscal year 1964. Manufactured tobacco provides only a small proportion of the revenue derived from tobacco products generally. Manufactured tobacco in the fiscal year 1965 is expected to account for only $18 million of total tobacco tax collections of $2.1 billion. Manufactured tobacco in large part is consumed by persons of relatively low-income levels and therefore the tax imposed on it is highly regressive. In addition, the production of manufactured tobacco has been declining over a long period of time.

The House bill took no action with respect to this tax. Your committee's bill, however, repeals the tax on manufactured tobacco effective January 1, 1966.

Since the tax is repealed as to all forms of tobacco other than cigars and cigarettes, the provisions of the code which impose controls on the handling and shipment of tobacco materials (tobacco other than manufactured tobacco, cigars, and cigarettes) no longer have any revenue protection significance and, hence, also are eliminated.

It is estimated that this provision when fully effective will result in an annual revenue loss of $18 million.

TABLE 13.—*Sales of manufactured tobacco, fiscal year 1964*

	Thousands of pounds
Plug	25,862
Twist	2,772
Fine-cut chewing	3,442
Scrap chewing	34,208
Smoking	80,665
Snuff	31,940
Total	178,889

F. MISCELLANEOUS PROVISIONS

1. Partial payments and sales of installment accounts (sec. 206 of the bill and sec. 4216 of the code)

Present law specifies the amount of manufacturers excise tax to be paid with each partial payment in the case of a lease, an installment sale where title does not pass until a future date, a conditional sale, or a chattel mortgage arrangement in which the sales price is paid in installments. The tax payment due with each partial payment is a proportion of the total tax due equal to the proportion of the full sales price represented by the given partial payment.

Both the House bill and your committee's bill, to cover situations where payments made with respect to a sale straddle effective dates, amend pres-

E1555
Exhibit 270B

ent law to provide that the tax paid with respect to each such partial payment will be a percentage of each payment based on the rate of tax, if any, in effect on the date the partial payment is due.

Under existing law, if installment accounts in which tax is being paid under the partial payment method are sold or otherwise disposed of, then, in general, any remaining tax due (determined by subtracting the amount paid on partial payments previously received from the total tax due), must then be paid. An exception is made if the sale of such accounts is connected with a bankruptcy or insolvency proceeding. In such a case the tax to be paid is not to exceed the amount of tax which would have been due if the tax had been based on the sale price, rather than on the original value on which the installment account was based.

Both the House bill and your committee's bill amend the present law to provide that in the case of a sale of an installment account, the tax to be paid at the time of sale will be the difference between the amount of tax previously paid and the total tax which would be due if the account were not sold; that is, if the total tax were computed on the basis of reduced tax rates over the life of the contract as described above. In the case of sales connected with bankruptcy or insolvency proceedings, the tax to be paid cannot exceed the sum of the amounts computed by multiplying the proportionate share of the present sales price which is allocable to each unpaid installment by the rate of tax which would apply at the time of such installment as provided in this bill.

2. Effective dates in the case of installment sales, etc. (sec. 701 of the bill)

Both the House bill and your committee's bill provide with regard to the effective dates for the repeal or reduction of certain retailers' and manufacturers' excise taxes as provided by the bill, that an article shall not be considered sold before the date of the reduction unless possession passes to the purchaser before such date. In the case of a lease, an installment sale where title does not pass until a future date, a conditional sale, or a chattel mortgage arrangement in which the sales price is paid in installments, entered into before one of the above dates, the tax to be paid in connection with partial payments made on or after such date will be based on the tax rate in effect on the date the partial payment is made. An amendment made by your committee provides that the lower rate of tax (or the repeal of a tax) is to apply with respect to installment or other partial payments after a rate reduction date (where the transaction occurred before the date of the reduction) only if the seller (or lessor) establishes that the price charged the purchaser (or lessee) has been reduced by the amount of the tax reduction attributable to the installment or other partial payments after the reduction date.

V. GENERAL EXPLANATION OF STRUCTURAL AND TECHNICAL CHANGES

1. Camper coaches (sec. 801 of the bill and sec. 4063 of the code)

Under existing law, house trailers are specifically exempt from the manufacturers' excise tax on motor vehicles. House trailers which have been held to be exempt from tax under present law are both those which are suitable for use in connection with passenger automobiles and with trucks.

E1556
Exhibit 270B

EXCISE TAX REDUCTION ACT

Presently, the Internal Revenue Service holds this exemption for house trailers does not apply to camper coaches, which are units designed to be mounted on a truck for use as living quarters or to mobile homes, which typically are bus-type bodies equipped for family living and mounted on truck chassis.

Historically, the rationale for exempting house trailers centered on the fact that such trailers were thought of as more or less permanent living quarters which were seldom moved about on the highways. However, small camper-type trailers have also been held exempt as house trailers.

In reality, the mobile-type motor home much more closely follows the initial rationale for exempting house trailers than is true of many of the small trailers now exempt under this provision. Camper coaches, also, although generally too small to serve as permanent living quarters, nevertheless are, in some cases, larger and provide more nearly permanent living quarters than many of the smaller trailers now exempt from tax. As a result, the traditional distinction as to these different types of mobile living quarters has become blurred and, in your committee's opinion, to continue tax on any such quarters while exempting others would result in unfair competitive problems for the manufacturers as well as treating unfairly those who may desire to purchase one particular type of mobile living quarters rather than another.

For the reasons given above, your committee's bill adds a provision to the House bill providing an exemption from the manufacturers' excise tax on trucks, buses, automobiles, parts, etc., for camper coaches and bodies for self-propelled mobile homes. This exemption applies in the case of articles designed to be mounted or placed on trucks, truck chassis, or automobile chassis and to be used primarily as living quarters. The exemption applies whether the articles are sold as original equipment or as separate parts to be placed in use. In the case of self-propelled mobile homes, the exemption does not extend to the chassis upon which such a body is mounted (regardless of the manner in which the entire unit is constructed). The bill makes it clear that house trailers are exempt from tax even though, from a practical standpoint, they may be too large to be drawn by a passenger automobile.

The effective date of this provision is the day after the date of enactment of the bill.

No inference should be drawn from this provision regarding the taxable status of mobile homes and camper coaches under existing law. The question is left to judicial interpretation.

It is estimated that this provision will reduce revenues by $6 million a year. This will affect Highway Trust Fund revenues, and not the administrative budget.

2. Farm feed, seed, and fertilizer equipment (sec. 801 of the bill and sec. 4063 of the code)

Under present law, a manufacturers' excise tax is imposed on the sale of truck chassis and bodies, bus chassis and bodies, etc. In the statute, there is no requirement that the vehicle be designed for use on the highways although this result has in effect been achieved by administrative ruling. However, there are types of farm equipment designed primarily for

E1557
Exhibit 270B

use on a farm or to provide a farming activity which, nevertheless, incidentally may use the highway.

The principal equipment of this type involves that designed to process or prepare, or haul, or spread, or load or unload feed, seed, or fertilizer as a farming activity. Your committee believes that it is unfortunate to tax this type of farm equipment and sees no reason for revenue derived from the sale of such equipment being allocated to the highway trust fund. For these reasons, your committee has provided an exemption for this type of farm equipment from the manufacturers' tax on the sale of trucks, buses, etc. No inference is intended, however, as to the present tax status of this equipment.

This provision is to be effective the day after the date of enactment of this bill.

It is estimated that this provision will have a negligible effect on the revenues.

3. Small three-wheeled motor vehicles (sec. 801 of the bill and sec. 4061 of the code)

Prior to 1955 a manufacturers' excise tax was imposed on motorcycles as well as passenger automobiles, trucks, and buses. Included by ruling in the motorcycle classification were small three-wheeled vehicles used primarily for intracity or intraplant purposes. The tax on motorcycles was repealed in 1956 (Public Law 379, 84th Cong., 1st sess.). That action was taken on the grounds that the domestic industry had been undergoing a steady decline. In 1958 the Internal Revenue Service reversed its ruling which treated these three-wheeled vehicles as motorcycles. Under the new ruling these vehicles were considered taxable as trucks, rather than tax free as motorcycles.

The manufacturers of the small three-wheeled utility vehicles have been experiencing a steady deterioration in profits and a leveling off in sales. Exemption from the tax on such vehicles would grant relief to this industry in much the same manner as relief was granted to the manufacturers of motorcycles in 1955. The principal users of such vehicles purchase them for reasons of economy and, therefore, a price reduction occasioned by repeal of the excise tax would be particularly significant.

For the reasons given above, your committee's bill provides an exemption from the manufacturers' tax on trucks for small three-wheel vehicles meeting certain specifications. They must be powered by a motor which does not exceed 18 brake horsepower (rated at 4,000 revolutions per minute) and the chassis must not exceed 1,000 pounds gross weight. The exemption applies to not only the chassis for these vehicles but also to bodies designed to be mounted on them.

This exemption is to apply with respect to articles sold on or after the day following the date of enactment of the bill.

It is anticipated that the revenue loss from this provision will be negligible.

4. Manufacturers price of trucks in which used parts are incorporated (sec. 801 of the bill and sec. 4061 of the code)

A problem has arisen with respect to the manufacturers' excise tax on trucks concerning the tax base in the case of trucks which are con-

E1558
Exhibit 270B

structed on special order for a purchaser who furnishes some of the parts to be incorporated in the vehicle. This situation arises, for example, when a person builds a truck for a customer incorporating usable parts from a wrecked vehicle owned by the customer. In some cases, the tax base of the truck has been held to be the value of the truck in the hands of the customer, on the grounds that he is the manufacturer.

Your committee believes that including the used parts in the tax base in this type of case is inappropriate because to do so would impose a second tax on the used parts.

For the reasons set forth above, your committee's bill provides that in determining the manufacturers' price for the purposes of the manufacturers' excise tax on trucks and buses, the value of any previously used component furnished by the customer is to be excluded from the tax base of the final article.

The effective date of this provision is the day after the date of enactment of this bill.

No inference is intended regarding the tax base for such vehicles under prior law.

The revenue effect of this provision is negligible.

5. Rebuilding of auto parts (sec. 801 of the bill and sec. 4221 of the code)

Prior to 1965, rebuilt auto parts were subject to the manufacturers' excise tax on automobile parts and accessories since rebuilding was then considered a manufacturing process. Because difficulties arose over the proper distinction between taxable rebuilt parts and nontaxable repaired or reconditioned parts, and because it was believed that rebuilt and reconditioned parts should be treated in the same manner, the law was amended in 1964 to exempt rebuilt auto parts from tax.

The 1964 amendments have not, however, entirely eliminated controversy over the distinction between rebuilding on the one hand and repairing and reconditioning on the other hand. Some have asserted that, in contrast to a person who repairs or reconditions, a person who rebuilds can purchase parts tax free for use in his operations under a provision (sec. 4221) which exempts from tax parts used in further "manufacturing." Treasury regulations promulgated under the authority granted by the 1964 law provide that the process of rebuilding tax-exempt parts is not to be considered manufacturing for the purposes of the provision referred to above.

Your committee believes that the use of new parts in rebuilding and reconditioning should be treated in the same way. For that reason it agrees with the regulations issued by the Treasury but believes that the matter should be clarified by statute. This bill, therefore, provides that rebuilding is not to be considered a manufacturing process for the purposes of section 4221.

The effective date of this provision is January 1, 1965, the date the tax was removed from rebuilt parts.

It is estimated that the revenue effect of this provision will be negligible.

6. Schoolbuses (sec. 801 of the bill and sec. 4061 of the code)

Under existing law, a schoolbus may be purchased free of the manufacturers' excise tax on trucks, buses, etc., if it is purchased for the exclusive use of a State, school district, or other local government or for a

E1559
Exhibit 270B

nonprofit educational organization. However, a bus purchased by an independent operator for use as a schoolbus under a contract arrangement with a school cannot be purchased tax free.

Your committee's bill amends present law to provide that the manufacturers' excise tax on trucks, buses, etc., is not to apply to a bus sold to a person for use exclusively in transporting students and employees of schools operated by States or local governments or by nonprofit educational organizations. However, incidental use of the bus in providing transportation for a State or local government or a tax-exempt nonprofit organization described in section 501(c) (such as the Boy Scouts or Girl Scouts) is not to be taken into account in this determination. The tax exemption in this case applies to both the schoolbus body and chassis.

The effective date of this provision is the day after the date of enactment of this bill.

It is estimated that the revenue effect of this provision will be $4 million. This will affect highway trust fund revenues, and not the administrative budget.

7. Definition of gasoline (sec. 802 of the bill and sec. 4082 of the code)

Existing law imposes a tax of 4 cents a gallon on gasoline sold by producer or importer. For the purpose of the tax gasoline is defined as "all products commercially known or sold as gasoline (including casinghead and natural gasoline)." The present definition of gasoline is difficult to apply administratively, in part because rapid technological change requires frequent reinterpretation. Moreover, the definition includes certain products, such as casinghead and natural gasoline and certain petrochemicals, which cannot be used in modern motor vehicles.

Your committee doubts whether gasoline which is unsuitable for use in motors should be taxed to support the highway trust fund.

This bill, therefore, amends the definition of gasoline to include only products commonly or commercially known or sold as gasoline which are suitable for use as a motor fuel. This definition exempts casinghead and natural gasoline from tax unless they are blended with other compounds to make gasoline which is used in motors, or unless they are actually used to propel a motor vehicle, motorboat, or airplane. In the former case, the final product of the blending process will be taxed as "gasoline" while in the latter case the bill provides that casinghead or natural gasoline will be taxed as a special motor fuel (under sec. 4041) if sold for use or used to propel a motor vehicle, motorboat, or airplane. No inference is intended as to what constitutes a taxable use of casinghead and natural gasoline under present law.

The effective date of the provision pertaining to the definition of gasoline is July 1, 1965.

The provisions regarding the taxation of casinghead or natural gasoline as a special motor fuel in certain circumstances is to apply with respect to such fuels sold or used after July 1, 1965, unless they were sold by a producer or importer before July 1 and were taxed as "gasoline" (under sec. 4081).

The revenue loss resulting from these provisions is expected to be negligible.

E1560
Exhibit 270B

EXCISE TAX REDUCTION ACT

8. Bonding requirements for gasoline (sec. 802 of the bill and sec. 4082 of the code)

Producers and importers of gasoline are currently required to secure bond to insure that they comply with the manufacturers' excise tax provisions. This is the only instance remaining in which domestic manufacturers subject to a manufacturers' excise tax are required to obtain a bond. The requirement was established at an earlier time when some of the producers involved apparently were not considered to be reliable. At the present time the bonding requirement constitutes a discriminatory administrative burden on gasoline producers.

Your committee's bill eliminates the bonding requirements for producers and importers of gasoline effective July 1, 1965. This provision is not expected to have any revenue effect.

9. Exception to registration in the case of vessels and aircraft (sec. 802 of the bill and sec. 4222 of the code)

Present law permits the tax-free sale of articles otherwise subject to manufacturers' excise tax if such articles are for use by the purchaser as supplies for vessels or aircraft. The exemption applies, however, only if the manufacturer and the purchaser are registered with the Internal Revenue Service.

Your committee has been informed that the registration procedure has not worked efficiently in the case of articles, particularly gasoline, sold as supplies to vessels and aircraft. The purchasers in these cases are often casual purchasers who are unfamiliar with the registration requirement. The seller must either undertake the often difficult task of trying to obtain a registration number with respect to such purchaser, or else must make the sale on a taxpaid basis and claim a credit, often, as a practical matter, on the same return on which the tax is reported.

This bill, therefore, amends present law to require the Secretary of the Treasury or his delegate to establish regulations permitting the use of exemption certificates to cover tax-free sales, in lieu of the registration procedure, in the case of articles sold for use as supplies in a vessel or aircraft.

The effective date of this provision is July 1, 1965.

10. Air transportation of servicemen on leave (sec. 803 of the bill and sec. 4262 of the code)

Under existing law, payment outside the United States for domestic air transportation which is part of a trip beginning or ending outside the United States is exempt from tax. Payments in the United States for "uninterrupted international air transportation" are exempt if the air transportation begins or ends outside the United States or the 225-mile zone in Canada or Mexico. To be exempt as uninterrupted air transportation, all parts of the trip must be scheduled in advance so that each scheduled layover period at a domestic airport does not exceed 6 hours.

Servicemen traveling at their own expense have difficulty in qualifying for the exemption. A serviceman coming from overseas may not be able to purchase tickets for domestic flight connections while abroad because he is to receive funds when he arrives in this country. Even though he

E1561
Exhibit 270B

pays for the domestic part of his air trip in this country, he would be entitled to exemption if his domestic portion met the 6-hour test for uninterrupted international air transportation. But often he cannot meet the test. First, he cannot make the domestic reservations from abroad because of uncertainties as to his schedule from abroad. Secondly, when he gets to the United States, he may wish to purchase a standby ticket (that is, a ticket which entitles him to a place on an aircraft only if that place is not otherwise sold) in order to secure the lower fare on this type of service. No definite schedule is possible with such tickets.

Your committee's bill amends present law to provide that servicemen traveling in uniform at their own expense on authorized leave can obtain the exemption from the 5-percent tax on domestic air transportation in connection with international trips even though they do not meet the 6-hour test contained in the law. Exemption from the tax will be available to servicemen with respect to the domestic portion of an international trip even if they do not schedule the entire trip in advance. To qualify, servicemen must travel in uniform on an authorized leave, furlough, or pass and must purchase [illegible]ir tickets within 6 hours of the time they land at the first domestic airport. They also must accept the first accommodation of the type their ticket calls for which becomes available. This exemption will apply to the domestic portion of trips taken by servicemen both entering and leaving the country.

This provision shall apply with respect to amounts paid for transportation beginning on or after July 1, 1965.

11. Policies issued by foreign insurers (sec. 804 of the bill and sec. 4374 of the code)

Under existing law, a tax is imposed on the premiums charged for a policy of insurance, indemnity bond, annuity contract, or policy of reinsurance issued by a foreign insurer. The tax is administered through the sale of stamps which must be affixed to each policy, bond, or contract.

The use of stamps to administer this tax creates certain administrative burdens for the taxpayers involved, primarily brokers. The fact that stamps in the proper denomination must be affixed to each policy may mean that frequent trips must be made to the local internal revenue office or post office. Moreover, the fact that tax must be paid on the basis of the premium charged causes difficulty in certain cases in which the premium is paid in installments. The broker is sometimes unable to collect the full tax when the premium is charged. This, in turn, involves bookkeeping and other problems for the broker.

This bill, therefore, permits the Secretary of the Treasury or his delegate to institute a return system for the payment of this tax which would supersede the use of stamps. The bill further provides that when such a return system is instituted, tax will be imposed on the basis of the premiums paid rather than on the basis of the premiums charged. It is contemplated that returns on a monthly, or longer period will be instituted.

The effective date of this provision, insofar as it authorizes the Secretary of the Treasury to change the method of payment of the tax, is July 1, 1965.

Only a negligible revenue loss is contemplated as a result of this provision.

E1562
Exhibit 270B

EXCISE TAX REDUCTION ACT

12. Return of distilled spirits to bonded premises (sec. 805 of the bill and sec. 500[illegible] the code)

Under ex[illegible] law, a refund or credit of tax can be obtained with respect to distilled spirits found unsuitable for their originally intended use only if such spirits are returned to the bonded premises of a distilled spirits plant within 6 months of the time they were withdrawn from bond. The refund or credit is limited to the quantity of spirits returned to the bonded premises in the original containers in which they were withdrawn from bond.

The 6-month restriction is not important for the protection of revenue since the original container provision serves that purpose. Moreover, the restriction occasionally creates hardships when the unsuitability of certain quantities of spirits is not discovered until more than 6 months have elapsed from the time the spirits are withdrawn from bond.

Your committee's bill repeals the requirement that distilled spirits found unsuitable for their originally intended use must be returned to the bonded premises of a distilled spirits plant (or customs custody in the case of imported spirits eligible for allowance of tax under 5062) within 6 months of the time they were withdrawn for the purposes of claiming a credit or refund with respect to such spirits.

The effective date of this provision is July 1, 1965.

It is expected that the revenue effect of this provision will be negligible.

13. Exemption from rectification tax for certain mingling of distilled spirits (sec. 805 of the bill and sec. 5025 of the code)

While present law (sec. 5021) imposes a tax of 30 cents a proof gallon (or fraction thereof) on distilled spirits which have been rectified in certain ways, elsewhere (sec. 5025) the product of a number of processes of mingling, blending, refining, and treating of distilled spirits is exempted from this tax. As a result present law creates complicated problems of administration and applies the rectification tax in a discriminatory manner to some, but not all, spirits of the same type or class. Frequent problems arise in the bottling premises; for example, in determining whether certain mingling operations or treatments of spirits, desirable in preparing the spirits for sale, involve tax liability or not under the rectification laws.

This bill amends present law to provide that the rectification tax is not to apply to the mingling of any spirits of the same type or class, or to the treatment of any spirits which does not change the type or class, if the process is carried out on the bottling premises of a distilled spirits plant.

As used in this provision, class (e. g., whisky) and type (e. g., bourbon) are intended to have the same meaning as prescribed for class and type in the standards of identity for distilled spirits in the regulations issued pursuant to the Federal Alcohol Administration Act (49 Stat. 977; 27 U.S.C. 8).

It is intended that these provisions will apply to spirits on which the rectification tax has not yet been determined prior to October 1, 1965. The new provisions are not to be interpreted as authorizing the labeling of spirits in bottles contrary to regulations issued pursuant to the Federal Alcohol Administration Act.

E1563
Exhibit 270B

LEGISLATIVE HISTORY

The revenue effect of this amendment is expected to be inconsequential since the tax presently applies in only a limited number of cases in this area.

14. Voluntary destruction of distilled spirits (sec. 805 of the bill and sec. 5215 of the code)

Present law requires that distilled spirits found to be unsuitable for the purposes originally intended must be immediately redistilled, denatured, or, in certain limited circumstances, mingled with other spirits if a refund or credit of tax is to be claimed when they are returned to bonded premises. Proprietors of distilled spirits plants find these alternatives unduly restrictive.

This amendment authorizes the proprietor of a distilled spirits plant to destroy, under supervision, distilled spirits returned to bonded premises because they are unsuitable for the purpose originally intended. This procedure would be available in addition to the alternatives listed above. It is consistent with the provision of existing law which permits the destruction of distilled spirits held in bond. It is also consistent with the amendment approved last year (Public Law 88-539) which authorized the voluntary destruction of imported distilled spirits returned to customs custody.

The effective date of this provision is July 1, 1965.

It is expected that this provision will have no revenue effect.

15. Redistillation of articles containing denatured distilled spirits (sec. 805 of the bill and sec. 5223 of the code)

Present law prohibits the reclaiming of distilled spirits from articles containing denatured alcohol. Denatured distilled spirits are spirits to which have been added denaturants (such as wood alcohol, various oils, formaldehyde, etc.) in order to render the spirits unfit for beverage or internal human medicinal use. Denatured spirits are transferred from the distilled spirits plant, the place of manufacture, to persons holding use permits which employ the denatured spirits in the manufacture of articles such as perfumes, toilet waters, rubbing alcohol, and antifreezes. Occasionally, some of these articles are found to be unsalable because of deterioration, error in formulation, or contamination, and must be disposed of. A problem of disposition also exists in the case of residues of manufacturing processes. In the absence of the prohibition in present law, such unsalable articles and residues could be returned to distilled spirits plants and redistilled. Such a procedure would not jeopardize the revenue, is equitable, and is a practical and economical way of disposing of certain waste products.

This bill amends present law to permit the redistillation of articles containing denatured distilled spirits on the bonded premises of a distilled spirits plant under regulations prescribed by the Secretary of the Treasury or his delegate. The bill also permits the redistillation of residues from related manufacturing processes.

The effective date of these provisions is October 1, 1965.

It is expected that the revenue effect of this provision will be negligible.

E1564
Exhibit 270B

EXCISE TAX REDUCTION ACT

16. Relanding of exported distilled spirits (sec. 805 of the bill and sec. 5608 of the code)

Present law imposes severe penalties on persons who are involved in intentionally—relanding in the United States distilled spirits which were exported. These provisions have created administrative problems and now appear unduly restrictive. The fact that the bonding period has been extended from 8 to 20 years and the more liberal provisions regarding the mingling of spirits in bond now in effect make these stringent provisions no longer necessary.

Your committee's bill, therefore, amends present law to permit the return of exported distilled spirits provided there is no intent to defraud the United States by so doing. The penalty and forfeiture provisions are retained to discourage unlawful relanding.

The effective date of this provision is July 1, 1965.

It is expected that this provision will have no revenue effect.

17. Carbon dioxide used in still wines (sec. 806 of the bill and sec. 5041 of the code)

Existing law imposes tax on wines at different rates depending on the alcohol content of the wine and whether it is a still wine or a sparkling wine. Still wines are defined as those which contain not more than 0.256 gram of carbon dioxide per one hundred milliliters of wine.

The existing definition of still wines was adopted to clarify the distinction between still wines and effervescent wines and to make it clear that some carbon dioxide can be added to, or retained in, still wine to improve its character and flavor without changing its tax status. This provision was also intended to permit the use domestically of manufacturing processes in the production of still wine comparable to those commonly used abroad. Experience has shown, however, that the present definition is too restrictive to serve adequately the purpose intended.

To alleviate the present situation, your committee's bill raises the quantity of carbon dioxide that can be contained in still wine from 0.256 gram per one hundred milliliters to 0.277 gram per one hundred milliliters effective July 1, 1965.

It is expected that this provision will have no revenue effect.

18. Deletion of wine reserve inventory provisions and certain restrictions relating to the use of sugar (sec. 806 of the bill and secs. 5383, 5384, and 5392 of the code)

The provisions concerning the amelioration and sweetening limitations for natural wines currently require the establishment of a reserve inventory of wines when high acid fruits are used for wine production. The mandatory reserve inventory provision was enacted to provide a basis for calculating the amount of amelioration and sweetening materials available for use within prescribed limitations. In practice it has been found that the reserve inventory requirement imposes burdensome recordkeeping problems on winemakers and produces administrative difficulties for the Government.

Existing law, by defining pure sugar, limits the kind of sugar which may be used in the amelioration or sweetening of natural wines, and also requires

E1565
Exhibit 270B

that dry sugar only may be used in certain instances. These provisions prevent the industry from using sugars of a quality similar to what is defined as pure sugar, and unduly restricts the use of liquid sugar. This limitation has prevented winemakers from taking full advantage of the economies made available by modern technology.

Your committee's bill amends present law to delete the reserve inventory requirement with respect to the amelioration or sweetening of wines. It also authorizes the use of other sugars and the limited use of liquid sugar at appropriate points where the use of pure dry sugar is presently prescribed.

The effective date of these provisions is January 1, 1966.

It is expected that this provision will have no revenue effect.

19. Shipment of liquors to U.S. possessions (sec. 807 of the bill and sec. 5002 of the code)

Under existing law, liquors can be shipped free of tax or with the benefit of a tax drawback to some but not all U.S. possessions. While shipments to Puerto Rico, the Virgin Islands, Guam, and American Samoa are tax free, tax must be paid on liquor shipped to other possessions, such as Midway Island and Wake Island. It has been pointed out that in these other possessions little U.S. liquor is sold to U.S. personnel because tax-free foreign liquors can be obtained there.

Your committee's bill amends present law to provide that the exemption for exports include shipments to any possession of the United States.

This provision is to be effective July 1, 1965.

No revenue diversion is foreseen, since under customs requirements, an administration must exist which, at the point of destination, can properly account for the receipt of merchandise, before it is released for shipment from the United States.

20. Use of reconstituted tobacco as a wrapper (sec. 808 of the bill and sec. 5702 of the code)

Ordinary cigarettes are currently taxed at the rate of $4 per thousand while cigars of the same weight are taxed at the rate of 75 cents per thousand. Under existing law, a cigarette is defined as a roll of tobacco wrapped in paper or any substance other than tobacco. A cigar is defined as a roll of tobacco wrapped in tobacco.

The introduction of reconstituted (homogenized) tobacco for use as a wrapper for rolls of tobacco has created problems regarding the existing distinction between a cigar and a cigarette. Reconstituted tobacco can be used to wrap rolls of tobacco that closely resemble cigarettes. Moreover, it possesses many of the properties of paper, including suitability for use in high-speed cigarette manufacturing machinery.

Your committee's bill amends present law to clarify the definition of cigars and cigarettes. The effect of the present definition of a cigarette is retained in that it is defined as any roll of tobacco wrapped in paper or in any substance not containing tobacco. The definition also is expanded, however, to include a roll of tobacco wrapped in a substance containing tobacco, if, because of its appearance, the type of tobacco used in its filler, its packaging and labeling, it is likely to be sold as, or purchased as, a cigarette. The effect of the present definition of a cigar is retained in that

E1566
Exhibit 270B

it is defined as a roll of tobacco wrapped in leaf tobacco or in any substance containing tobacco which is not defined as a cigarette.

The effective date of this provision is July 1, 1965.

This provision is not expected to have any revenue effect.

21. Credit as well as refund permitted for tobacco products (sec. 808 of the bill and sec. 5705 of the code)

Under present law, a manufacturer, importer, or export warehouse proprietor may claim a refund of tax paid with respect to tobacco products, cigarette papers, and cigarette tubes withdrawn from the market or destroyed by fire, casualty, or act of God. Under present law this tax must be refunded, it cannot be claimed as a credit on a subsequent tobacco tax return. This practice is in contrast to the procedure permitted in the case of alcoholic beverages where a tax-refund claim arises for similar reasons. A credit is easier to administer than a refund and its use in the tobacco tax area was recommended as an economy by the General Accounting Office in a report to Congress filed on June 30, 1951.

Your committee's bill, therefore, amends present law to provide that a credit or a refund may be claimed in those situations in which refund of tobacco tax is now authorized. Such a credit or refund is also provided in the case of products manufactured [illegible] Virgin Islands and Puerto Rico and transported to the United States.

The effective date of this provision is October 1, 1965.

This is not expected to have any effect on revenues.

22. Credits against income tax for gasoline tax refunds (sec. 809 of the bill and secs. 6420 and 6421 of the code)

Under present law, a farmer may claim a refund of the gasoline tax paid with respect to gasoline used on his farm for farming purposes. The farmer claims this refund annually for the period July 1 to June 30 on a form which must be filed by September 30.

It is more efficient from an administrative standpoint to permit farmers to claim their gasoline tax refunds as a credit against tax liability on their annual income tax returns. Adoption of this procedure will simplify tax administration for both farmers and the Government. Farmers will no longer have to file a separate return to claim their gasoline tax refund. This in turn will encourage the more than half of the 3.5 million farmers who presently file income tax returns but do not file for gasoline tax refunds to claim the refunds for which they are eligible. Moreover, the credit procedure will enable farmers to obtain the benefit of the refund at an earlier date than is possible under present law. From the standpoint of the Government, the credit procedure will relieve the Internal Revenue Service of the burden of processing some 1.4 million separate gasoline tax refund claims.

This bill provides that gasoline tax refunds are to be claimed by farmers under the procedures of existing law for the period ending on June 30, 1965. Thereafter, the refunds are to be claimed as a credit against tax when the farmer's annual income tax return is filed. This credit will be treated in the same manner as the credit for tax withheld from wages. That is, if the refund due exceeds the liability on the annual return, a refund of such excess will be paid. Furthermore, a farmer who would not otherwise have

E1567
Exhibit 270B

to file an income tax return will have to do so to obtain a gasoline tax refund.

The credit for gasoline tax refund will first be taken on the return for the first full taxable year beginning after June 30, 1965. The credit on the first return will also include a claim for the refund of any tax on gasoline used after June 30, 1965, but before the beginning of such taxable year. In the typical case of a calendar year taxpayer, a credit for gasoline tax refund will first be taken on the income tax return filed for the year 1966 and will cover the period from June 30, 1965, through December 31, 1966.

The procedure outlined above with respect to gasoline used by farmers will also be available in the case of gasoline used for off-highway purposes or by local transit systems. However, the quarterly refund system, where the amounts involved are more than $1,000, will still continue to be available. In addition, the refund provision will continue to be available for the United States, States, or local governmental units, and tax-exempt organizations.

It is expected that the revenue effect of this provision will be negligible.

23. Statute of limitations on assessment and collection (sec. 810 of the bill and sec. 6501 of the code)

Recent court decisions have taken the position that unless a particular transaction is listed on the quarterly excise tax return, the statute of limitations does not begin to run with respect to that transaction. These decisions, which are contrary to the practice the Internal Revenue Service has followed, have led some manufacturers to believe they must list every sale on the quarterly return if they wish to begin the running of the statute of limitations with respect to the sale. In the case of taxes which are levied on the customer but paid by the business firm, as in the case of the telephone tax, it is the customer, rather than the company who would be denied the protection of the statute of limitations if the standard adopted in recent court decisions was adhered to uniformly.

Your committee's bill provides that when an excise tax return is filed which has an entry with respect to a particular tax, the statute of limitations will begin to run. Provision will also be made on the return for the "use" of an article.

The bill also provides that in the case of a return which fails to list properly reportable tax, the statute of limitations will be 6 years if the amount omitted exceeds 25 percent of the tax reported on the return.

The effective date of these provisions is July 1, 1965. It is expected that the revenue effect of this provision will be negligible.

24. Exchanges for sale of poultry (sec. 811 of the bill and sec. 501(c) (18) of the code)

The attention of your committee has been called to the problem of nonprofit poultry growers exchanges, such as the Eastern Shore, Poultry Growers' Exchange, Inc. These exchanges act as a sales agent for the growers and buyers of poultry in the localities in which they operate. They are nonprofit organizations and have no capital stock. The directors and officers of the exchanges do not receive compensation for the services they render. After ample working capital is provided for the operation of these

E1568
Exhibit 270B

exchanges, any excess funds are donated to agricultural enterprises, such as 4-H Clubs, Future Farmers of America, and poultry improvement associations. Moreover, upon liquidation of these exchanges, provision has been made that all their assets be transferred to educational organizations. Thus, under no circumstances can officers, directors, or members receive distributions from the exchange for their private benefit.

The Internal Revenue Service has held that organizations of this type are subject to income tax on the reserves they accumulate. This is true despite the fact that the Internal Revenue Service has ruled (Rev.Rul. 56-245) that organizations composed of fur ranchers which, as one of their activities, obtain agreements from private auction companies for the marketing of the products of their members and the furnishing of certain services in connection therewith and advertise the type of fur products produced by members qualify as exempt agricultural organizations under the Internal Revenue Code. While it is recognized that there are some differences in the poultry exchanges and these organizations composed of fur ranchers (in that the former actually perform the auctioneering services for their members whereas the latter only arrange for the auctioneering services to be performed for their members by private, profit-making companies), your committee believes that essentially both are properly considered as agricultural organizations and should be exempt from income tax.

For the reasons given above your committee has added a new paragraph to the list of tax-exempt organizations providing an exemption for corporations, associations, and organizations organized and operated exclusively for the purpose of providing an exchange for the sale of poultry for the poultry growers of a particular locality where four conditions are met:

First, the organization must be organized as a nonprofit organization with no capital stock.

Second, no member of the board of directors receives any compensation from the organization.

Third, the net earnings of the organization (except for reasonable additions to working capital for the exchange) must be devoted exclusively to disseminating information as to the best methods of poultry culture and for other agricultural purposes.

Fourth, at all times on and after June 10, 1965 (the date of announcement of this decision by your committee), it must be provided that upon liquidation of the organization, all of the net assets would be transferred to an educational organization which is a private tax-exempt organization or a State agency.

Because your committee believes that such organizations should have been exempt from income tax in the past, it has made this exemption available for all taxable years to which the 1954 code generally is applicable; namely, taxable years beginning after December 31, 1953, and ending after August 16, 1954. However, the provision does not open years closed by the statute of limitations.

Your committee believes that this exemption will result in a minimal loss of revenue; probably less than $50,000 for all prior years for which this provision is applicable.

E1569
Exhibit 270B

LEGISLATIVE HISTORY

VI. EXCISE TAXES REMAINING IN EFFECT

The excise taxes remaining in effect after all of the reductions made by your committee's bill become effective are shown in table 14. This table shows only those excise taxes remaining in effect after the scheduled reductions in 1967, 1968, and 1969 are fully effective. This table shows the present rates of these taxes and also the revenue expected to be derived from them under the expected yields for the fiscal year 1966. The total revenue of $10,623 million can be compared with the revenue derived from excise taxes under present law of $15,356 million. (The interest equalization tax is not included in this table.)

E1570
Exhibit 270B

Table 14.—*Excise taxes remaining after all reductions made by H.R. 8371 become effective*

[Presented in the order and under the headings which are used in the code]

	Rate	Estimated revenue (millions) [1]
Retailers' excise taxes: Diesel fuel and special motor fuels	4¢ per gal	$195
Manufacturers' excise taxes:		
Automobiles	1% of mfrs. price [2]	190
Trucks, buses, trailers	10% of mfrs. price	400
Truck parts and accessories	8% of mfrs. price	20
Tires, etc.:		
Highway type	10¢ per lb	450
Other	5¢ per lb	
Inner tubes	10¢ per lb	
Tread rubber	5¢ per lb	
Gasoline	4¢ per gal	2,800
Lubricating and cutting oil [3]	6¢ and 3¢ per gal	78
Fishing equipment	10% of mfrs. price	8
Pistols and revolvers	10% of mfrs. price	2
Other firearms, shells and cartridges	11% of mfrs. price	19
Miscellaneous excise taxes:		
Transportation of persons by air	5% of amount paid	140
Foreign insurance policies	4¢ or 1¢ per dollar of premium	5
Wagering:		
Wagers	10% of amount of wager	7
Occupation of accepting wagers	$50 per year	
Coin-operated gaming devices	$250 per device per year	18
Use tax on certain highway vehicles	$3 per 1,000 lbs. per year	108
Sugar	0.53¢ per lb	105
Import tax on oleomargarine	15¢ per lb	(4)

E1571
Exhibit 270B

LEGISLATIVE HISTORY

	Rate	Estimated revenue (millions) [1]
Regulatory taxes:		
Narcotic drugs:		
Opium, opiates	1¢ per ounce	1
Opium for smoking	$300 per lb	
Occupational	$1 to $24 per year	
Marihuana:		
Transfers	$1 or $100 per ounce	
Occupational	$1 to $24 per year	
White phosphorus matches	2¢ per hundred	(4)
Adulterated butter	10¢ or 15¢ per lb	
Process butter	¼¢ per lb	
Occupational taxes: adulterated or process butter	$48 to $600 per year	
Filled cheese	1¢ or 8¢ per lb	
Occupational taxes: filled cheese	$12 to $400 per year	
Cotton futures	2¢ per lb	
Bank circulation tax (other than national banks)	1/12 of 1%; ⅛ of 1%; 10%	
Alcohol taxes:		
Distilled spirits	$10.50 per proof gal	2,750
Beer	$9 per barrel	940
Wine	Various rates	118
Rectification tax	30¢ per proof gal	25
Occupational taxes:		
Rectifiers	$110 or $220 per year	22
Brewers	$55 or $110 per year	
Manufacturers of stills	$55 per year plus $22 per still	
Wholesale dealers	$123 or $255 per year	
Retail dealers	$24 or $54 per year	
Other	$25 to $100 per year	

E1572
Exhibit 270B

	Rate	Estimated revenue (millions)[1]
Tobacco taxes:[5]		
Cigarettes	$4 per 1,000	2,150
Cigars	$2.50 to $20 per 1,000	70
Cigarette paper or tubes	½ or 1¢ per 50	2
Machineguns, etc.:		
Transfers	$5 or $200 per firearm	(4)
Occupational	$10 to $500 per year	
Total		[6] 10,623

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[1] The estimated revenue shown is for a full year of liability based upon expected yields in the fiscal year 1966. This is not the full yield expected from all excise taxes in 1966 because it does not include the expected yield of those taxes scheduled for elimination by the fiscal year 1969.

[2] For those passenger cars not meeting the safety standards specified by the General Services Administration, the tax rate is 5 percent. Under the House bill this tax is repealed.

[3] In the House bill, the tax on lubricating oil was retained only on oil for highway use.

[4] Less than $500,000.

[5] In the House bill the tax on chewing and smoking tobacco and snuff was retained.

[6] This total can be reconciled with excise tax collections of $15,350,000,000 shown in table 1 by subtracting total effect of reductions under H.R. 8371 of $4,618,000,000 plus $85,000,000 representing undistributed depository receipts and unapplied collections which were included in the total shown in table 1.

EXHIBIT 271
Tariff pages filed by New York Telephone

USA 83a-475
(ED. 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

271 id

FPI-MI—9-24-75-50M-4417

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 21, First Revised Page 21, Second Revised Page 21, Third Revised Page 21, Fifth Revised Page 21, Seventh Revised Page 21, Eighth Revised Page 21, Nineth Revised Page 21, Tenth Revised Page 21

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1574
Exhibit 271 NEW YORK OFFICE

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
Original Page 21

Public Service Commission
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OCT 11 1961

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

Centrex service is a PBX service consisting of dial switching equipment located either on Telephone Company premises or on subscribers' premises, one or more switchboard positions located on the subscriber's premises, and stations.

The dial switching equipment permits stations connected to the service to dial each other, to dial outgoing calls directly, and to receive incoming calls by direct inward dialing from the calling party to the station. Incoming and outgoing calls may also be completed by the switchboard attendant.

Where the dial switching equipment is located on Telephone Company premises the service is designated Centrex-C O Service. Switchboard positions will be installed only in a building area in which Centrex-C O service is offered.

Where the dial switching equipment is located on the subscriber's premises, the service is designated Centrex-C U Service. Where the dial switching equipment and the switchboard positions are not located in the same or immediately adjacent rooms on the same floor or are separated by over 75 feet, special charges based on cost apply for the additional cable and for any additional maintenance.

Centrex service is classified as business service. The service is furnished subject to the availability of facilities.

(N)

2. Definitions of Terms

A Centrex line is a line connecting Centrex dial switching equipment to a station.

A primary station is the first station, or the first appearance in other than a station, of a Centrex line.

A bridged station is an additional station on a Centrex line.

A restricted station is one which is equipped only to make calls to and receive calls from other stations connected to the same subscriber's PBX service.

A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

SUPERSEDED - CANCELLED
BY 1 REVISED SHEET (PAGE) 21
TO PSC NO 800 (Rev 4)
EFFECTIVE March 1, 1964

3. Rates and Charges

	Monthly Rate	Installation Charge
a. Push button console switchboards or cord switchboards wired for released loop operation, each position	$175.00	$500.00
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

Issued October 10, 1961. Effective December 1, 1961.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York 7, N. Y.

E1575
Exhibit 271
P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
1st Revised Page 21
Superseding Original Page 21

Public Service Commission
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JAN 31 1964
TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

Centrex service is a PBX service consisting of dial switching equipment located either on Telephone Company premises or on subscribers' premises, one or more switchboard positions located on the subscriber's premises, and stations.

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Where the dial switching equipment is located on the subscriber's premises, the service is designated Centrex-C U Service. Where the dial switching equipment and the switchboard positions are not located in the same or immediately adjacent rooms on the same floor or are separated by over 75 feet, special charges based on cost apply for the additional cable and for any additional maintenance.

Centrex service is classified as business service. The service is furnished subject to the availability of facilities.

Supplemental PBX systems not arranged for direct inward dialing to their associated stations may be furnished in conjunction with Centrex service of the same subscriber. All incoming calls to supplemental PBX systems are connected through the Centrex facilities. (C)

2. Definitions of Terms

A Centrex line is a line connecting Centrex dial switching equipment to a station.

A primary station is the first station, or the first appearance in other than a station, of a Centrex line.

A bridged station is an additional station on a Centrex line.

A restricted station is one which is equipped only to make calls to and receive calls from other stations connected to the same subscriber's PBX service.

A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

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2 REVISED SHEET PAGE 21
EFFECTIVE [illegible]

3. Rates and Charges

	Monthly Rate	Installation Charge
a. Push button console switchboards or cord switchboards wired for released loop operation, each position	$175.00	$500.00
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

Issued January 24, 1964. Effective March 1, 1964.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1576
Exhibit 271

P. S. Service Commission
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TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

Centrex service is a PBX service consisting of dial switching equipment located either on Telephone Company premises or on subscribers' premises, one or more switchboard positions located on the subscriber's premises, and stations.

The dial switching equipment permits stations connected to the service to dial each other, to dial outgoing calls directly, and to receive incoming calls by direct inward dialing from the calling party to the station. Incoming and outgoing calls may also be completed by the switchboard attendant.

Where the dial switching equipment is located on Telephone Company premises the service is designated Centrex-C O Service. Switchboard positions will be installed only in a building area in which Centrex-C O service is offered.

Where the dial switching equipment is located on the subscriber's premises, the service is designated Centrex-C U Service. Where the dial switching equipment and the switchboard positions are not located in the same or immediately adjacent rooms on the same floor or are separated by over 75 feet, special charges based on cost apply for the additional cable and for any additional maintenance.

Centrex service is classified as business service. The service is furnished subject to the availability of facilities.

Supplemental PBX systems not arranged for direct inward dialing to their associated stations may be furnished in conjunction with Centrex service of the same subscriber. All incoming calls to supplemental PBX systems are connected through the Centrex facilities.

SUPERSEDED - CANCELLED
BY Sec. 4
3 REVISED PAGE 21
EFFECTIVE Feb 1 1966

2. Definitions of Terms

A Centrex line is a line connecting Centrex dial switching equipment to a station.

A primary station is the first station, or the first appearance in other than a station, of a Centrex line.

A bridged station is an additional station on a Centrex line.

A restricted station is one which is equipped only to make calls to and receive calls from other stations connected to the same subscriber's PBX service.

A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

3. Rates and Charges

	Monthly Rate	Installation Charge	
a. Switchboards			
(1) Cord switchboards wired for released loop operation, each position	$175.00	$500.00	
(2) Push button console switchboards, each position			
12 button	175.00	500.00*	
30 button	225.00	750.00	(C)

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

	Monthly Rate	Installation Charge
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

E1577
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
3rd Revised Page 21
Superseding 2nd Revised Page 21

Public Service Commission
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TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

Centrex service is a PBX service consisting of control equipment and switching equipment located either on Telephone Company premises or on subscribers' premises, one or more switchboard positions located on the subscriber's premises, and stations. (T)

The control equipment and switching equipment permit stations connected to the service to dial each other, to dial outgoing calls directly, and to receive incoming calls by direct inward dialing from the calling party to the station. Incoming and outgoing calls may also be completed by the switchboard attendant. (T)

Where the control equipment is located on Telephone Company premises the service is designated Centrex-C O Service. Switchboard positions will be installed only in a building area in which Centrex-C O service is offered. (T)

Where the control equipment and switching equipment are located on the subscriber's premises, the service is designated Centrex-C U Service. Where the control and switching equipment and the switchboard positions are not located in the same or immediately adjacent rooms on the same floor or are separated by over 75 feet, special charges based on cost apply for the additional cable and for any additional maintenance. (T) (T)

Centrex service is classified as business service. The service is furnished subject to the availability of facilities.

Supplemental PBX systems not arranged for direct inward dialing to their associated stations may be furnished in conjunction with Centrex service of the same subscriber. All incoming calls to supplemental PBX systems are connected through the Centrex facilities.

2. Definitions of Terms

A Centrex line is a line connecting Centrex control and switching equipment to a station. (T)

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A primary station is the first station, or the first appearance in other than a station, ~~of~~ a Centrex line.

A bridged station is an additional station on a Centrex line.

5.
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A restricted station is one which is equipped only to make calls to and receive calls from other stations connected to the same subscriber's PBX service.

A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

3. Rates and Charges

	Monthly Rate	Installation Charge
a. Switchboards		
(1) Cord switchboards wired for released loop operation, each position	$175.00	$500.00
(2) Push button console switchboards, each position		
12 button	175.00	500.00*
30 button	225.00	750.00

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

	Monthly Rate	Installation Charge
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

Issued December 15, 1965. Effective February 1, 1966.
By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1578
Exhibit 271

P.S.C. No. 800—Telephone

New York Telephone Company

Section 4
5th Revised Page 21
Superseding 3rd Revised Page 21
(4th Revised Page 21 Canceled)

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

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The control equipment and switching equipment permit stations connected to the service to dial each other, to dial outgoing calls directly, and to receive incoming calls by direct inward dialing from the calling party to the station. Incoming and outgoing calls may also be completed by the switchboard attendant.

Where the control equipment is located on Telephone Company premises the service is designated Centrex-C O Service. Switchboard positions will be installed only in a building area in which Centrex-C O service is offered.

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7 REVISED LEAF SHEET PAGE 21
EFFECTIVE 6/1/71

2. Definitions of Terms

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3. Rates and Charges

	Monthly Rate	Installation Charge	
a. Switchboards			
(1) Cord switchboards wired for released loop operation, each position	$189.18	$540.50	(C)
(2) Push button console switchboards, each position			
12 button	189.18	540.50*	
30 button	243.23	810.75	

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

Effective 2/26/70 *, under authority of the Public Service Commission, State of New York, Special Permission Order No.* 70-2721 *dated* 2/24/70 *, and under Section 113 of the Public Service Law in Case 25155.*

Issued February 19, 1970.

Effective March 21, 1970.

By James R. Billingsley, General Attorney,
140 West Street, New York, N. Y. 10007

E1579
Exhibit 271

P. S. C. No. 800—Telephone

PRIVATE BRANCH EXCHANGE SERVICE

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A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

3. Rates and Charges

	Monthly Rate	Installation Charge	
a. Switchboards			
(1) Cord switchboards wired for released loop operation, each position #	$189.18	$540.50	(T)
(2) Push button console switchboards, each position			
0 or 12 button	189.18	540.50*	(T)
30 button	243.23	810.75	

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

# Not available with electronic serving switching equipment. (T)

	Monthly Rate	Installation Charge
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

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SUPP ____ TO PSC NY 800-Sect 4
8 REVISED LEAF SHEET PAGE 21
EFFECTIVE 7/1/71

Effective 6/1/71 *under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T.* 2845 *dated* 5/18/71

Issued April 5, 1971.

Effective June 1, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1580
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
8th Revised Page 21
Superseding 7th Revised Page 21

Public Service Commission
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JUL 16 1971
ALBANY, N.Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

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Centrex service is classified as business service. The service is furnished subject to the availability of facilities.

Supplemental PBX systems not arranged for direct inward dialing to their associated stations may be furnished in conjunction with Centrex service of the same subscriber. All incoming calls to supplemental PBX systems are connected through the Centrex facilities.

2. Definitions of Terms

A Centrex line is a line connecting Centrex control and switching equipment to a station.

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A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

3. Rates and Charges

	Monthly Rate	Installation Charge	
a. Switchboards			
(1) Cord switchboards wired for released loop operation, each position #	$213.40	$609.68	(C)
(2) Push button console switchboards, each position			(C)
0 or 12 button	213.40	609.68*	(C)
30 button	274.36	914.53	(C)

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

Not available with electronic serving switching equipment.

	Monthly Rate	Installation Charge
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

800-Sect 4
21
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E1581
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
9th Revised Page 21
Superseding 8th Revised Page 21

Public Service Commission
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RATES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

Centrex service is a PBX service consisting of control equipment and switching equipment located either on Telephone Company premises or on subscribers' premises, one or more switchboard positions located on the subscriber's premises, and stations.

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Where the control equipment and switching equipment are located on the subscriber's premises, the service is designated Centrex-C U Service. Where the control and switching equipment and the switchboard positions are not located in the same or immediately adjacent rooms on the same floor or are separated by over 75 feet, special charges based on cost apply for the additional cable and for any additional maintenance.

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2. Definitions of Terms

A Centrex line is a line connecting Centrex control and switching equipment to a station.

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A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

3. Rates and Charges

	Monthly Rate	Installation Charge	
a. Switchboards			
(1) Cord switchboards wired for released loop operation, each position #	$232.61	$664.55	(C)
(2) Push button console switchboards, each position			
0 or 12 button	232.61	664.55*	
30 button	299.05	996.84	

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

Not available with electronic serving switching equipment.

	Monthly Rate	Installation Charge
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

Effective 2/3/72, *1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72

Issued January 27, 1972. Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1582
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
10th Revised Page 21
Superseding 9th Revised Page 21

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE

1. General

Centrex service is a PBX service consisting of control equipment and switching equipment located either on Telephone Company premises or on subscribers' premises, one or more switchboard positions located on the subscriber's premises, and stations.

The control equipment and switching equipment permit stations connected to the service to dial each other, to dial outgoing calls directly, and to receive incoming calls by direct inward dialing from the calling party to the station. Incoming and outgoing calls may also be completed by the switchboard attendant.

Where the control equipment is located on Telephone Company premises the service is designated Centrex-C O Service. Switchboard positions will be installed only in a building area in which Centrex-C O service is offered.

Where the control equipment and switching equipment are located on the subscriber's premises, the service is designated Centrex-C U Service. Where the control and switching equipment and the switchboard positions are not located in the same or immediately adjacent rooms on the same floor or are separated by over 75 feet, special charges based on cost apply for the additional cable and for any additional maintenance.

Centrex Service is furnished only as a complete service. The Exchange Access portion or Intercommunication (including Centrex features) portion of the Centrex station charges are not furnished separately. (T)

Centrex service is classified as business service. The service is furnished subject to the availability of facilities.

Supplemental PBX systems not arranged for direct inward dialing to their **associated** stations may be furnished in conjunction with Centrex service of the **same subscriber**. All incoming calls to supplemental PBX systems are connected through the Centrex facilities.

2. Definitions of Terms

A Centrex line is a line connecting Centrex control and switching equipment to a station.

A primary station is the first station, or the first appearance in other than a station, of a Centrex line.

A bridged station is an additional station on a Centrex line.

A restricted station is one which is equipped only to make calls to and receive calls from other stations connected to the same subscriber's PBX service.

A location consists of all premises on continuous property or within the same city block. At airports, a location consists of all premises within the same established airport area.

A principal location is the location where one or more switchboard positions are installed. Where switchboard positions are not furnished, the principal location is a building designated by the subscriber where primary stations are located.

3. Rates and Charges

	Monthly Rate	Installation Charge
a. Switchboards		
(1) Cord switchboards wired for released loop operation, each position #	$232.61	$664.55
(2) Push button console switchboards, each position		
0 or 12 button	232.61	664.55*
30 button	299.05	996.84

*The installation charge does not apply when a 12 button console switchboard replaces a 30 button console switchboard.

Not available with electronic serving switching equipment.

	Monthly Rate	Installation Charge
b. Trunks		
Normal exchange trunks	None	None
Foreign exchange trunks	Rates and charges specified in Section 7	

SUPERSEDED
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21
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EFFECTIVE 12/3/73

Issued June 15, 1972. Effective August 1, 1972.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1583
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original

New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 22, First Revised Page 22, Second Revised Page 22, Third Revised Page 22, Sixth Revised Page 22

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1584
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
Original Page 22

Public Service Commission
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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations

Message rate Centrex service may be furnished only in exchanges where business individual line message rate service is furnished. Flat rate Centrex service may be furnished only in exchanges where business individual line flat rate service is furnished.

The schedule of rates for primary stations on Centrex-CO service applies as follows:

> The schedule applies separately at each location within the same building area as the principal location. Primary stations located outside the building area in which the principal location is established are included with the primary stations at the principal location in the application of the schedule of rates.
>
> The rates are subject to a minimum monthly charge for 100 primary non-restricted stations.
>
> Restricted stations at other than the principal location are subject to the rates for non-restricted stations. (N)

The schedule of rates for primary stations on Centrex-CU service applies as follows:

> The schedule applies separately at each location within the same building area as the serving switching equipment. Primary stations located outside the building area in which the serving switching equipment is located are included with the primary stations at the location of the serving switching equipment in the application of the schedule of rates.
>
> The rates are subject to a minimum monthly charge for 100 primary non-restricted stations served by each switching equipment, except that where two or more switching equipments are located within the base rate area of the same building area, the total number of stations served by all such switching equipments are counted toward the minimum charge.
>
> Restricted stations at other than the location of the serving switching equipment are subject to the rates for non-restricted stations.

SUPERSEDED - CANCELLED
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SUPP. ___ TO PSC NY 800
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1 REVISED SHEET PAGE
EFFECTIVE Sept 1, 1966

Issued October 10, 1961. Effective December 1, 1961.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York 7, N. Y.

E1585
Exhibit 271

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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations

Message rate Centrex service may be furnished only in exchanges where business individual line message rate service is furnished. Flat rate Centrex service may be furnished only in exchanges where business individual line flat rate service is furnished.

The schedule of rates for primary stations on Centrex-CO service applies as follows:

> The schedule applies separately at each location within the same building area as the principal location. Primary stations located outside the building area in which the principal location is established are included with the primary stations at the principal location in the application of the schedule of rates.
>
> The rates are subject to a minimum monthly charge for 100 primary non-restricted stations.
>
> Restricted stations at other than the principal location are subject to the rates for non-restricted stations.

The schedule of rates for primary stations on Centrex-CU service applies as follows:

> The schedule applies separately at each location within the same building area as the serving switching equipment. Primary stations located outside the building area in which the serving switching equipment is located are included with the primary stations at the location of the serving switching equipment in the application of the schedule of rates.
>
> The rates are subject to a minimum monthly charge for 100 primary non-restricted stations served by each switching equipment, except that where two or more switching equipments are located within the base rate area of the same building area, the total number of stations served by all such switching equipments are counted toward the minimum charge.
>
> Restricted stations at other than the location of the serving switching equipment are subject to the rates for non-restricted stations.

Note—Centrex stations located in students' rooms in dormitories are furnished subject to the rates, charges and regulations set forth in Paragraph I.4. following for Centrex Dormitory Service. (T)

CANCELLED
800-Sec-4
2 REVISED LEAF PAGE 22
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Issued July 20, 1966. Effective September 1, 1966.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1586

Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations

Message rate Centrex service may be furnished only in exchanges where business individual line message rate service is furnished. Flat rate Centrex service may be furnished only in exchanges where business individual line flat rate service is furnished.

The schedule of rates for primary stations on Centrex-CO service applies as follows:

> The schedule applies separately at each location within the same building area as the principal location. Primary stations located outside the building area in which the principal location is established are included with the primary stations at the principal location in the application of the schedule of rates.
>
> The rates are subject to a minimum monthly charge for 100 primary non-restricted stations.
>
> Restricted stations at other than the principal location are subject to the rates for non-restricted stations.

The schedule of rates for primary stations on Centrex-CU service applies as follows:

> The schedule applies separately at each location within the same building area as the serving switching equipment. Primary stations located outside the building area in which the serving switching equipment is located are included with the primary stations at the location of the serving switching equipment in the application of the schedule of rates.
>
> The rates are subject to a minimum monthly charge for 100 primary non-restricted stations served by each switching equipment, except that where two or more switching equipments are located within the base rate area of the same building area, the total number of stations served by all such switching equipments are counted toward the minimum charge.
>
> Restricted stations at other than the location of the serving switching equipment are subject to the rates for non-restricted stations.

Note 1.—Centrex stations located in students' rooms in dormitories are furnished subject to the rates, charges and regulations set forth in Paragraph I.4. following for Centrex Dormitory Service. (T)

Note 2.—Where distance increments are applicable in the exchange, an incremental charge applies to each Centrex primary non-restricted station in accordance with the schedule set forth in Section 1, Paragraph R.4.a. (3) of this Tariff. This incremental charge is in addition to the charges for stations specified in Paragraphs I.3.c. and I.4.c. following. (N)

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Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations

Message rate Centrex service may be furnished only in exchanges where business individual line message rate service is furnished. Flat rate Centrex service may be furnished only in exchanges where business individual line flat rate service is furnished.

The schedule of rates for primary stations on Centrex-CO service applies as follows:

The schedule applies separately at each location within the same building area as the principal location. Primary stations located outside the building area in which the principal location is established are included with the primary stations at the principal location in the application of the schedule of rates.

The rates are subject to a minimum monthly charge for 100 primary stations at the non-restricted station rate. Restricted stations may be counted toward the minimum. The restricted station rate herein then applies only after the non-restricted station minimum is exceeded. (T)

Restricted stations at other than the principal location are subject to the rates for non-restricted stations.

SUPERSEDED - CANCELLED
BY 800 Sec 4
6 REVISED PAGE 22
EFFECTIVE Dec 15, 1974

The schedule of rates for primary stations on Centrex-CU service applies as follows:

The schedule applies separately at each location within the same building area as the serving switching equipment. Primary stations located outside the building area in which the serving switching equipment is located are included with the primary stations at the location of the serving switching equipment in the application of the schedule of rates.

The rates are subject to a minimum monthly charge for 100 primary stations, at the non-restricted station rate, served by each switching equipment, except that where two or more switching equipments are located within the base rate area of the same building area, the total number of stations served by all such switching equipments are counted toward the minimum charge. Restricted stations may be counted toward the minimum. The restricted station rate herein then applies only after the non-restricted station minimum is exceeded. (T) (T)

Restricted stations at other than the location of the serving switching equipment are subject to the rates for non-restricted stations.

Note 1.—Centrex stations located in students' rooms in dormitories are furnished subject to the rates, charges and regulations set forth in Paragraph I.4. following for Centrex Dormitory Service.

Note 2.—Where distance increments are applicable in the exchange, an incremental charge applies to the exchange access portion of the Centrex primary non-restricted station charge in accordance with the schedule set forth in Section 1, Paragraph R.4.a. (3) of this Tariff. This incremental charge is in addition to the charges for stations specified in Paragraph I.3.c. and I.4.c. following. (T) (T)

E1588
Exhibit 271

Form 59.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 23, First Revised Page 23, Second Revised Page 23, Fifth Revised Page 23, Seventh Revised Page 23, Eighth Revised Page 23, Nineth Revised Page 23, Eleventh Revised Page 23, Twelfth Revised Page 23, Fourteenth Revised Page 23, Fifteenth Revised Page 23, Sixteenth Revised Page 23

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this
2nd *day of* May
one thousand nine hundred Seventy-Seven

Samuel R. Madison
Secretary.

E1589
Exhibit 271

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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

	Monthly Rate			Connection Charge
	First 100	**Next 600**	**Over 700**	
(1) Primary non-restricted stations on Centrex-CO Service, each				
(a) Message Rate	$8.90	$7.40	$6.15	$10.00*
(b) Flat Rate				
Where the monthly base rate for individual line business flat rate service is:				
$10.50 or less	9.55	8.05	6.80	10.00*
12.00	9.75	8.25	7.00	10.00*
13.50	9.95	8.45	7.20	10.00*
15.25	10.15	8.65	7.40	10.00*
17.00	10.35	8.85	7.60	10.00*
(2) Primary non-restricted stations on Centrex-CU Service, each				
(a) Message Rate	8.15	6.65	5.40	10.00*
(b) Flat Rate (N)				
Where the monthly base rate for individual line business flat rate service is:				
$10.50 or less	9.05	7.55	6.30	10.00*
12.00	9.25	7.75	6.50	10.00*
13.50	9.45	7.95	6.70	10.00*
15.25	9.65	8.15	6.90	10.00*
17.00	9.85	8.35	7.10	10.00*
(3) Primary restricted stations, each	4.00	4.00	4.00	10.00*
(4) Bridged stations, each	Rates applicable to PBX stations as specified in B.4. of this Section			3.75*

*No charge applies to the connection of Supplemental Equipment specified in A.1. of Section 14 of this Tariff when it is ordered for completion at the same time and on the same premises as the associated station. The connection charge does not apply when a manual or dial PBX system is converted to Centrex service provided the station is not moved.

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E1590
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
First Revised Page 23
Superseding Original Page 23

Public Service Commission
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ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

	Monthly Rate First 100	Monthly Rate Next 600	Monthly Rate Over 700	Connection Charge*	
(1) Primary non-restricted stations on Centrex-CO Service, each					
(a) Message Rate	$8.90	$7.40	$6.15	$15.00	
(b) Flat Rate					
Where the monthly base rate for individual line business flat rate service is:					
$10.50 or less	9.55	8.05	6.80	15.00	
12.00	9.75	8.25	7.00	15.00	
13.50	9.95	8.45	7.20	15.00	
15.25	10.15	8.65	7.40	15.00	
17.00	10.35	8.85	7.60	15.00	
(2) Primary non-restricted stations on Centrex-CU Service, each					
(a) Message Rate	8.15	6.65	5.40	15.00	
(b) Flat Rate					(C)
Where the monthly base rate for individual line business flat rate service is:					
$10.50 or less	9.05	7.55	6.30	15.00	
12.00	9.25	7.75	6.50	15.00	
13.50	9.45	7.95	6.70	15.00	
15.25	9.65	8.15	6.90	15.00	
17.00	9.85	8.35	7.10	15.00	
(3) Primary restricted stations, each	4.00	4.00	4.00	15.00	
(4) Bridged stations, each	Rates applicable to PBX stations as specified in B.4. of this Section			5.00	

*The connection charge does not apply when a manual or dial PBX system is converted to Centrex service provided the station is not moved.

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2 REVISED LEAF SHEET (PAGE) 23
EFFECTIVE 10/1/1966

Issued December 20, 1963. Effective February 1, 1964.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1591
Exhibit 271

JUL 22 1966
TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

	Monthly Rate First 100	Monthly Rate Next 600	Monthly Rate Over 700	Connection Charge*	
(1) Primary non-restricted stations on Centrex-CO Service, each					
(a) Message Rate					
Where the monthly base rate for business additional trunks is:					
$4.75	$8.90	$7.40	$6.15	$15.00	
5.25	8.95	7.45	6.20	15.00	(C)
5.75	9.00	7.50	6.25	15.00	(C)
(b) Flat Rate					
Where the monthly base rate for individual line business flat rate service is:					
$ 8.00 or less	9.15	7.65	6.40	15.00	(C)
9.25	9.35	7.85	6.60	15.00	(C)
10.50	9.55	8.05	6.80	15.00	
12.00	9.75	8.25	7.00	15.00	
13.50	9.95	8.45	7.20	15.00	
15.25	10.15	8.65	7.40	15.00	
17.00	10.35	8.85	7.60	15.00	
(2) Primary non-restricted stations on Centrex-CU Service, each					
(a) Message Rate					
Where the monthly base rate for business additional trunks is:					
$4.75	8.15	6.65	5.40	15.00	
5.25	8.20	6.70	5.45	15.00	(C)
5.75	8.25	6.75	5.50	15.00	(C)
(b) Flat Rate					
Where the monthly base rate for individual line business flat rate service is:					
$ 8.00 or less	8.65	7.15	5.90	15.00	(C)
9.25	8.85	7.35	6.10	15.00	(C)
10.50	9.05	7.55	6.30	15.00	
12.00	9.25	7.75	6.50	15.00	
13.50	9.45	7.95	6.70	15.00	
15.25	9.65	8.15	6.90	15.00	
17.00	9.85	8.35	7.10	15.00	
(3) Primary restricted stations, each	4.00	4.00	4.00	15.00	
(4) Bridged stations, each	Rates applicable to PBX stations as specified in B.4. of this Section			5.00	

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*The connection charge does not apply when a manual or dial PBX system is converted to Centrex service provided the station is not moved.

E1592
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

Public Service Commission
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	Monthly Rate First 100	Monthly Rate Next 600	Monthly Rate Over 700	Connection Charge*	
(1) Primary non-restricted stations on Centrex-CO Service, each					
(a) Message Rate Where the monthly base rate for business additional trunks is:					
$ 5.15	$8.95	$7.45	$6.20	$25.00	┐
5.70	9.01	7.51	6.26	25.00	
6.24	9.06	7.56	6.31	25.00	
(b) Flat Rate Where the monthly basic group rate for individual line business flat rate service is:					
$ 8.68 or less	9.28	7.78	6.53	25.00	
10.04	9.50	8.00	6.75	25.00	
11.39	9.72	8.22	6.97	25.00	
13.02	9.94	8.44	7.19	25.00	
14.65	10.17	8.67	7.42	25.00	
16.55	10.39	8.89	7.64	25.00	
18.45	10.62	9.12	7.87	25.00	
(2) Primary non-restricted stations on Centrex-CU Service, each					
(a) Message Rate Where the monthly base rate for business additional trunks is:					(C)
$ 5.15	8.20	6.70	5.45	25.00	
5.70	8.26	6.76	5.51	25.00	
6.24	8.31	6.81	5.56	25.00	
(b) Flat Rate Where the monthly basic group rate for individual line business flat rate service is:					
$ 8.68 or less	8.78	7.28	6.03	25.00	
10.04	9.00	7.50	6.25	25.00	
11.39	9.22	7.72	6.47	25.00	
13.02	9.44	7.94	6.69	25.00	
14.65	9.67	8.17	6.92	25.00	
16.55	9.89	8.39	7.14	25.00	
18.45	10.12	8.62	7.37	25.00	
(3) Primary restricted stations, each	4.32	4.32	4.32	25.00	
(4) Bridged stations, each	Rates applicable to PBX stations as specified in B.4. of this Section			10.00	┘

*The connection charge is $15.00 when a manual or dial PBX system is converted to Centrex service provided the station is not moved or substituted. (C)

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Effective February 26, 1970, under authority of the Public Service Commission, State of New York, Special Permission Order No. T&T 2721 dated February 24, 1970, and under Section 113 of the Public Service Law in Case 25155.

E1593
Exhibit 271

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ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

	Monthly Rate First 100	Monthly Rate Next 600	Monthly Rate Over 700	Connection Charge*
(1) Primary non-restricted stations on Centrex-CO Service, each				
(a) Message Rate Where the monthly base rate for business additional trunks is:				
$ 5.81	$10.10	$8.40	$6.99	$25.00
6.43	10.16	8.47	7.06	25.00
7.04	10.22	8.53	7.12	25.00
(b) Flat Rate Where the monthly basic group rate for individual line business flat rate service is:				
$ 9.79 or less	10.47	8.78	7.37	25.00
11.33	10.72	9.02	7.61	25.00
12.85	10.96	9.27	7.86	25.00
14.69	11.21	9.52	8.11	25.00
16.53	11.47	9.78	8.37	25.00
18.67	11.72	10.03	8.62	25.00
20.81	11.98	10.29	8.88	25.00
(2) Primary non-restricted stations on Centrex-CU Service, each				
(a) Message Rate Where the monthly base rate for business additional trunks is:				
$ 5.81	9.25	7.56	6.15	25.00
6.43	9.32	7.63	6.22	25.00
7.04	9.37	7.68	6.27	25.00
(b) Flat Rate Where the monthly basic group rate for individual line business flat rate service is:				
$ 9.79 or less	9.90	8.21	6.80	25.00
11.33	10.15	8.46	7.05	25.00
12.85	10.40	8.71	7.30	25.00
14.69	10.65	8.96	7.55	25.00
16.53	10.91	9.22	7.81	25.00
18.67	11.16	9.46	8.05	25.00
20.81	11.42	9.72	8.31	25.00
(3) Primary restricted stations, each	4.87	4.87	4.87	25.00
(4) Bridged stations, each	Rates applicable to PBX stations as specified in B.4. of			20.00

(C)

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23
8/3/73

*Where a manual or dial PBX system or a Dial Communications Service System is converted to Centrex Service the following connection charges apply, provided the stations are not moved or substituted.

Primary Station, each	$15.00
Bridged Station, each	None

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated .

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1594
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
8th Revised Page 23
Superseding 7th Revised Page 23

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

Public Service Commission
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	Monthly Rate			Connection Charge*
	First 100	**Next 600**	**Over 700**	
(1) Primary non-restricted stations on Centrex-CO Service, each				
(a) Message Rate Where the monthly base rate for business additional trunks is:				
$ 5.81	$11.01	$9.16	$7.62	$25.00
6.43	11.07	9.23	7.70	25.00
7.04	11.14	9.30	7.76	25.00
(b) Flat Rate Where the monthly basic group rate for individual line business flat rate service is:				
$10.67 or less	11.41	9.57	8.03	25.00
12.35	11.68	9.83	8.29	25.00
14.01	11.95	10.10	8.57	25.00
16.01	12.22	10.38	8.84	25.00
18.02	12.50	10.66	9.12	25.00
20.35	12.77	10.93	9.40	25.00
22.68	13.06	11.22	9.68	25.00
26.02	13.35	11.51	9.97	25.00
(2) Primary non-restricted stations on Centrex-CU Service, each				
(a) Message Rate Where the monthly base rate for business additional trunks is:				
$ 5.81	10.08	8.24	6.70	25.00
6.43	10.16	8.32	6.78	25.00
7.04	10.21	8.37	6.83	25.00
(b) Flat Rate Where the monthly basic group rate for individual line business flat rate service is:				
$10.67 or less	10.79	8.95	7.41	25.00
12.35	11.06	9.22	7.68	25.00
14.01	11.34	9.49	7.95	25.00
16.01	11.61	9.77	8.23	25.00
18.02	11.89	10.05	8.51	25.00
20.35	12.16	10.31	8.77	25.00
22.68	12.45	10.59	9.06	25.00
26.02	12.74	10.89	9.35	25.00
(3) Primary restricted stations, each	5.31	5.31	5.31	25.00
(4) Bridged stations, each	Rates applicable to PBX stations as specified in B.4. of this Section			25.00

(C)

*Where a manual or dial PBX system or a Dial Communications Service System is converted to Centrex Service the following connection charges apply, provided the stations are not moved or substituted.

Primary Station, each	$15.00
Bridged Station, each	None

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EFFECTIVE

Effective 2/3/72, *1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72

Issued January 27, 1972.

Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1595
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
9th Revised Page 23
Superseding 8th Revised Page 23

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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

(1) Monthly Rates (T)

(a) Primary non-restricted stations, each	FIRST 100	NEXT 600	OVER 700	
Message Rate				┐
Centrex Intercommunication Charge				
Centrex-CO	$9.79	$8.43	$7.18	
Centrex-CU	8.87	7.51	6.26	
Centrex Exchange Access Charge				
Centrex-CO and Centrex-CU				
Where the monthly base rate for business additional trunks is:				
$5.81	1.21	.73	.44	
6.43	1.29	.81	.52	
7.04	1.34	.86	.57	
Flat Rate				
Centrex Intercommunication Charge				(C)
Centrex-CO	8.85	7.51	6.88	
Centrex-CU	8.23	6.89	6.26	
Centrex Exchange Access Charge				
Centrex-CO and Centrex-CU				
Where the monthly basic group rate for individual line business flat rate service is:				
10.67 or less	2.56	2.06	1.15	
12.35	2.83	2.33	1.42	
14.01	3.11	2.60	1.70	
16.01	3.38	2.88	1.97	
18.02	3.66	3.16	2.25	
20.35	3.93	3.42	2.51	
22.68	4.22	3.70	2.80	
26.02	4.51	4.00	3.09	┘
(b) Primary restricted stations, each	5.31	5.31	5.31	┐

(c) Bridged stations, each — Rates applicable to PBX stations as specified in B.4. of this Section (T)

(2) Connection Charges*

Primary stations, each	$25.00	
Bridged stations, each	25.00	┘

*Where a manual or dial PBX system or a Dial Communications Service System is converted to Centrex Service the following connection charges apply, provided the stations are not moved or substituted.

Primary stations, each	$15.00
Bridged stations, each	None

SUPERSEDED
SUPP. 11 800-Sect 4
23
EFFECTIVE 12/3/73

Issued June 15, 1972. Effective August 1, 1972.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N.Y. 10007

E1596
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original New York Telephone Co., P. S. C. No. 800 - Section 4 - Original Page 24, First Revised Page 24, Second Revised Page 24, Third Revised Page 24, Fourth Revised Page 24, Seventh Revised Page 24

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1597
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

Public Service Commission
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TARIFF FILES
ALBANY, N. Y.

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

(5) Mileage Charges

(a) Centrex-CO Service	
1. Each primary station within same building area as principal location	
Station within base rate area	None
Station outside base rate area	Individual line exchange line mileage charge for each station. See Section 7.
2. Each primary station in different building area from principal location	Schedule 2 mileage charges as specified in Section 7, between principal location and location of station.
3. Each bridged station at different location from associated primary station.	Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.
(b) Centrex-CU Service	
1. Each primary station within same building area as the serving switching equipment	
Station within base rate area	
Serving switching equipment within base rate area	None
Serving switching equipment outside base rate area	Individual line exchange line mileage charge for each station, as specified in Section 7, measured between location of serving switching equipment and nearest point on base rate area boundary.
Station outside base rate area	
At same location as serving switching equipment	None
At different location from serving switching equipment	Individual line exchange line mileage charge for each station, as specified in Section 7, measured between location of station and nearest point on base rate area boundary.
2. Each primary station in a different building area from serving switching equipment	Schedule 2 mileage charges as specified in Section 7 between location of switching equipment and location of station.
3. Each bridged station at a different location from associated primary station.	Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.

(N)

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E1598
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

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OCT 10 1962

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

(5) Mileage Charges

(a) Centrex-CO Service		
1. Each primary station within same building area as principal location		
Station within base rate area	None	
Station outside base rate area	Individual line exchange line mileage charge for each station. See Section 7.	
2. Each primary station in different building area from principal location	Schedule 2 mileage charges as specified in Section 7, between principal location and location of station.	
3. Each bridged station at different location from associated primary station.	*Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.	(C)
*The charges specified in D.6. of Section 7 for Airport Lines apply where the primary station and bridged station are located in different Airport Areas.		(C)
(b) Centrex-CU Service		
1. Each primary station within same building area as the serving switching equipment		
Station within base rate area		
Serving switching equipment within base rate area	None	
Serving switching equipment outside base rate area	Individual line exchange line mileage charge for each station, as specified in Section 7, measured between location of serving switching equipment and nearest point on base rate area boundary.	
Station outside base rate area		
At same location as serving switching equipment	None	
At different location from serving switching equipment	Individual line exchange line mileage charge for each station, as specified in Section 7, measured between location of station and nearest point on base rate area boundary.	
2. Each primary station in a different building area from serving switching equipment	Schedule 2 mileage charges as specified in Section 7 between location of switching equipment and location of station.	
3. Each bridged station at a different location from associated primary station.	Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.	

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P.S.C. NO. 800
2 REVISED PAGE 24
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E1599
Exhibit 271
P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
2nd Revised Page 24
Superseding 1st Revised Page 24

PRIVATE BRANCH EXCHANGE SERVICE

Public Service Commission
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1968
TARIFF FILES
ALBANY, N.Y.

I. CENTREX SERVICE (Cont'd)

3. **Rates and Charges** (Cont'd)

c. Stations (Cont'd)

(5) Mileage Charges

(a) Centrex-CO Service

1. Each primary station within same building area as principal location		
Station within base rate area	None	
Station outside base rate area	Individual line locality mileage charge for each station. See Section 7.	(T)
2. Each primary station in different building area from principal location	Schedule 2 mileage charges as specified in Section 7, between principal location and location of station.	
3. Each bridged station at different location from associated primary station.	*Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.	

*The charges specified in D.6. of Section 7 for Airport Lines apply where the primary station and bridged station are located in different Airport Areas.

(b) Centrex-CU Service

1. Each primary station within same building area as the serving switching equipment		
Station within base rate area		
Serving switching equipment within base rate area	None	
Serving switching equipment outside base rate area	Individual line locality mileage charge for each station, as specified in Section 7.	(T) (T)
Station outside base rate area		
At same location as serving switching equipment	None	
At different location from serving switching equipment	Individual line locality mileage charge for each station, as specified in Section 7.	(T) (T)
2. Each primary station in a different building area from serving switching equipment	Schedule 2 mileage charges as specified in Section 7 between location of switching equipment and location of station.	
3. Each bridged station at a different location from associated primary station.	Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.	

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Issued July 22, 1968. Effective September 15, 1968.

By James R. Billingsley, General Attorney,
140 West Street, New York, N.Y. 10007

E1600
Exhibit 271

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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

(3) Mileage Charges (T)

(a) Centrex-CO Service

1. Each primary station within same building area as principal location	
Station within base rate area	None
Station outside base rate area	Individual line locality mileage charge for each station. See Section 7.
2. Each primary station in different building area from principal location	Schedule 2 mileage charges as specified in Section 7, between principal location and location of station.
3. Each bridged station at different location from associated primary station.	*Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.

*The charges specified in D.6 of Section 7 for Airport Lines apply where the primary station and bridged station are located in different Airport Areas.

(b) Centrex-CU Service

1. Each primary station within same building area as the serving switching equipment	
Station within base rate area	
Serving switching equipment within base rate area	None
Serving switching equipment outside base rate area	Individual line locality mileage charge for each station, as specified in Section 7.
Station outside base rate area	
At same location as serving switching equipment	None
At different location from serving switching equipment	Individual line locality mileage charge for each station, as specified in Section 7.
2. Each primary station in a different building area from serving switching equipment	Schedule 2 mileage charges as specified in Section 7 between location of switching equipment and location of station.
3. Each bridged station at a different location from associated primary station.	Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.

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E1601
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

c. Stations (Cont'd)

(3) Mileage Charges

(a) Centrex-CO Service

1. Each primary station within same building area as principal location	
Station within base rate area	None
Station outside base rate area	Individual line locality mileage charge for each station. See Section 7.
2. Each primary station in different building area from principal location	Schedule 2 mileage charges as specified in Section 7, between principal location and location of station.
3. Each bridged station at different location from associated primary station.	*Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.

*The mileage rates applicable to Airport lines and World Trade Center lines are as provided in Paragraphs D.6. and D.7. respectively of Section 7. (T)

(b) Centrex-CU Service

1. Each primary station within same building area as the serving switching equipment	
Station within base rate area	
Serving switching equipment within base rate area	None
Serving switching equipment outside base rate area	Individual line locality mileage charge for each station, as specified in Section 7.
Station outside base rate area	
At same location as serving switching equipment	None
At different location from serving switching equipment	Individual line locality mileage charge for each station, as specified in Section 7.
2. Each primary station in a different building area from serving switching equipment	Schedule 2 mileage charges as specified in Section 7 between location of switching equipment and location of station.
3. Each bridged station at a different location from associated primary station.	Schedule 2 mileage charges as specified in Section 7 between location of primary station and location of bridged station.

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E1602
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original

New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 25, First Revised Page 25, Third Revised Page 25, Sixth Revised Page 25, Eighth Revised Page 25, Tenth Revised Page 25, Twelfth Revised Page 25

on file in this office, and I do ***HEREBY CERTIFY*** *the same to be a correct transcript therefrom and of the whole thereof.*

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this
2nd *day of* May
one thousand nine hundred Seventy-Seven

Samuel R. Madison
Secretary.

E1603
Exhibit 271

NEW YORK OFFICE

PRIVATE BRANCH EXCHANGE SERVICE

Public Service Commission
OCT 11 1961
TARIFF FILES
ALBANY, N. Y.

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

d. Tie Lines

	Monthly Rate	Connection Charge	
(1) Tie lines between Centrex services of the same subscriber			
(a) Both terminals in the same building area			
1. Tie line terminals, each	None	None	
2. Mileage	None	None	
(b) Terminals in different building areas			
1. Tie line terminals, each			
With outward dialing and automatic signaling			
At Centrex-CU service locations	$ 6.00	$20.00	
At Centrex-CO service locations	8.00	20.00	
With inward dialing and automatic signaling			
At Centrex-CU service locations	6.00	20.00	(N)
At Centrex-CO service locations	8.00	20.00	
With outward and inward dialing and automatic signaling			
At Centrex-CU service locations	8.00	20.00	
At Centrex-CO service locations	10.00	20.00	
2. Mileage	Schedule 2 mileage rate as specified in Section 7		
(2) Tie lines between a Centrex Service and another type of switchboard system of the same subscriber or a service of another subscriber			
(a) Tie line terminals, each			
At Centrex service locations	Rates and charges specified in d. (1) (b) 1. preceding		
At Centralized Switching service locations	Rates and charges specified in J.3.d.(1) of this Section		
At other locations	Rates and charges specified in B.8. or C.3.i. of this Section		
(B) Mileage	Schedule 2 mileage rate as specified in Section 7		

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E1604
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

Public Service Commission
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OCT 10 1962
TARIFF FILES
ALBANY, N. Y.

	Monthly Rate	Connection Charge
d. Tie Lines		
(1) Tie lines between Centrex services of the same subscriber		
(a) Both terminals in the same building area		
1. Tie line terminals, each	None	None
2. Mileage	None	None
(b) Terminals in different building areas		
1. Tie line terminals, each		
With outward dialing and automatic signaling		
At Centrex-CU service locations	$ 6.00	$20.00
At Centrex-CO service locations	8.00	20.00
With inward dialing and automatic signaling		
At Centrex-CU service locations	6.00	20.00
At Centrex-CO service locations	8.00	20.00
With outward and inward dialing and automatic signaling		
At Centrex-CU service locations	8.00	20.00
At Centrex-CO service locations	10.00	20.00
2. Mileage	Schedule 2 mileage rate as specified in Section 7	
(2) Tie lines between a Centrex Service and another type of switchboard system of the same subscriber or a service of another subscriber		
(a) Tie line terminals, each		
At Centrex service locations	Rates and charges specified in d. (1) (b) 1. preceding	
At Centralized Switching service locations	Rates and charges specified in J.3.d.(1) of this Section	
At other locations	Rates and charges specified in B.8. or C.3.i. of this Section	
(b) Mileage	*Schedule 2 mileage rate as specified in Section 7 (C)	

*The charges specified in D.6. of Section 7 for Airport Lines apply where both terminals of the line are located on an airport where Airport Areas have been established. (C)

SUPERSEDED CANCELLED
800-Sec 4
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EFFECTIVE FEB 26 1970

Issued October 10, 1962. Effective November 18, 1962.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York 7, N. Y.

E1605
Exhibit 271

Public Service Commission
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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

d. Tie Lines	Monthly Rate	Connection Charge	
(1) Tie lines between Centrex services of the same subscriber			
(a) Both terminals in the same building area			
1. Tie line terminals, each	None	None	
2. Mileage	None	None	
(b) Terminals in different building areas			
1. Tie line terminals			
a. Non-switching tie line terminals, each			(T)
With outward dialing and automatic signaling			
At Centrex-CU service locations	$6.49	$21.62	
At Centrex-CO service locations	8.65	21.62	
With inward dialing and automatic signaling			
At Centrex-CU service locations	6.49	21.62	
At Centrex-CO service locations	8.65	21.62	(C)
With outward and inward dialing and automatic signaling			
At Centrex-CU service locations	8.65	21.62	
At Centrex CO service locations	10.81	21.62	

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5 REVISED LEAF SHEET PAGE 25
EFFECTIVE 2/1/71

Effective 3/26/70 *under authority of the Public Service Commission, State of New York, Special Permission Order No.* TY 2721 *dated* 2/24/70 *, and under Section 113 of the Public Service Law in Case 25155.*

Issued February 19, 1970. Effective March 21, 1970.

By James R. Billingsley, General Counsel,
140 West Street, New York, N. Y. 10007

E1606
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original

New York Telephone Co., P.S.C. No. 800 - Section 4 - Fifth Revised Page 25

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. [illegible]
Secretary.

E1607
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
5th Revised Page 25
Superseding 3rd Revised Page 25

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FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

	Monthly Rate	**Connection Charge**	
d. Tie Lines			
(1) Tie lines between Centrex services of the same subscriber			
(a) Both terminals in the same building area			
1. Tie line terminals, each	None	None	
2. Mileage	None	None	
(b) Terminals in different building areas			
1. Tie line terminals			
a. Non-switching tie line terminals, each			
With outward dialing and automatic signaling			
At Centrex-CU service locations	$7.32	$24.39	
At Centrex-CO service locations	9.76	24.39	
With inward dialing and automatic signaling			
At Centrex-CU service locations	7.32	24.39	(C)
At Centrex-CO service locations	9.76	24.39	
With outward and inward dialing and automatic signaling			
At Centrex-CU service locations	9.76	24.39	
At Centrex CO service locations	12.19	24.39	

800-Sec 4
25
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2/3/77

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated .

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1608
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
6th Revised Page 25
Superseding 5th Revised Page 25

Public Service Commission
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ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

	Monthly Rate	Connection Charge	
d. Tie Lines			
(1) Tie lines between Centrex services of the same subscriber			
(a) Both terminals in the same building area			
1. Tie line terminals, each	None	None	
2. Mileage	None	None	
(b) Terminals in different building areas			
1. Tie line terminals			
a. Non-switching tie line terminals, each			
With outward dialing and automatic signaling			
At Centrex-CU service locations	$7.98	$26.59	┐
At Centrex-CO service locations	10.64	26.59	
With inward dialing and automatic signaling			
At Centrex-CU service locations	7.98	26.59	
At Centrex-CO service locations	10.64	26.59	(C)
With outward and inward dialing and automatic signaling			
At Centrex-CU service locations	10.64	26.59	
At Centrex CO service locations	13.29	26.59	┘

SUPERSEDED - CANCELLED
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25
SUPP 8
EFFECTIVE 12/3/73

Effective 2/3/72*, 1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72

Issued January 27, 1972. Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1609
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - First Revised Page 25A, Third Revised Page 25A, Fourth Revised Page 25A, Fifth Revised Page 25A, Seventh Revised Page 25A, Tenth Revised Page 25A, Twelfth Revised Page 25A

on file in this office, and I do HEREBY CERTIFY *the same to be a correct transcript therefrom and of the whole thereof.*

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1610
Exhibit 271

Public Service Commission
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NY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

d. Tie Lines (Cont'd)

(1) Tie lines between Centrex services of the same subscriber (Cont'd)

(b) Terminals in different building areas (Cont'd)

1. Tie line terminals (Cont'd)

	Monthly Rate	Connection Charge	
b. Switching tie line terminals, each			
Associated with lines using local facilities only and short haul lines			
At Centrex-CU service locations	$15.00	$50.00	
At Centrex-CO service locations	15.00	50.00	
Associated with long haul lines, lines in group channels and interstate mileage lines			
At Centrex-CU service locations	25.00	50.00	(N)
At Centrex-CO service locations	25.00	50.00	
Exchange connect charge (applicable in addition to switching tie line terminal rate where such terminal is arranged for connection to normal exchange trunks for outgoing service)			
Message rate	1.00*	None	
Flat rate	3.00*	None	

*This rate does not apply to tie line terminals associated with lines extending between a Centrex service and a supplemental PBX system as specified in I.3.l. following.

2. Mileage — Mileage rate specified in Section 7

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(2) Tie lines between a Centrex Service and another type of switchboard system of the same subscriber or a service of another subscriber

(a) Tie line terminals, each	
At Centrex service locations	Rates and charges specified in d. (1) (b) 1. preceding
At Centralized Switching service locations	Rates and charges specified in J.3.d.(1) of this Section
At other locations	Rates and charges specified in B.8. or C.3.i. of this Section
(b) Mileage	**Mileage rate specified in Section 7

**The charges specified in D.6 of Section 7 for Airport Lines apply where both terminals of the line are located on an airport where Airport Areas have been established.

Effective 2/26/70 *under authority of the Public Service Commission, State of New York, Special Permission Order No.* 712721 *dated* 2/24/70 *, and under Section 113 of the Public Service Law in Case 25155.*

Issued February 19, 1970.

Effective March 21, 1970.

By James R. Billingsley, General Attorney,
140 West Street, New York, N. Y. 10007

E1611
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
3rd Revised Page 25A
Superseding 1st Revised Page 25A

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JUL 16 1971
TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

d. Tie Lines (Cont'd)

(1) Tie lines between Centrex services of the same subscriber (Cont'd)

(b) Terminals in different building areas (Cont'd)

1. Tie line terminals (Cont'd)

	Monthly Rate	Connection Charge	
b. Switching tie line terminals, each			
Associated with lines using local facilities only and short haul lines			
At Centrex-CU service locations	$16.92	$56.40	⌝
At Centrex-CO service locations	16.92	56.40	
Associated with long haul lines, lines in group channels and interstate mileage lines			
At Centrex-CU service locations	28.20	56.40	
At Centrex-CO service locations	28.20	56.40	
Exchange connect charge (applicable in addition to switching tie line terminal rate where such terminal is arranged for connection to normal exchange trunks for outgoing service)			(C)
Message rate	1.13*	None	
Flat rate	3.38*	None	

*This rate does not apply to tie line terminals associated with lines extending between a Centrex service and a supplemental PBX system as specified in I.3.l. following. ⌟

2. Mileage — Mileage rate specified in Section 7

800-Sect 4
25A 3/3/72

(2) Tie lines between a Centrex Service and another type of switchboard system of the same subscriber or a service of another subscriber

(a) Tie line terminals, each	
At Centrex service locations	Rates and charges specified in d. (1) (b) 1. preceding
At Centralized Switching service locations	Rates and charges specified in J.3.d.(1) of this Section
At other locations	Rates and charges specified in B.8. or C.3.i. of this Section
(b) Mileage	**Mileage rate specified in Section 7

**The charges specified in D.6 of Section 7 for Airport Lines apply where both terminals of the line are located on an airport where Airport Areas have been established.

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated .

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N.Y. 10007

E1612
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
4th Revised Page 25A
Superseding 3rd Revised Page 25A

Public Service Commission
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TARIFF FILES
ALBANY N. Y.

SUPERSEDED - CANCELLED
SUPP ______ BY TO PSC NY 800-Sec 4
5 REVISED LEAF SHEET (PAGE) 25A
EFFECTIVE 3/15/72

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

d. Tie Lines (Cont'd)

(1) Tie lines between Centrex services of the same subscriber (Cont'd)

(b) Terminals in different building areas (Cont'd)

1. Tie line terminals (Cont'd)

	Monthly Rate	Connection Charge	
b. Switching tie line terminals, each			
Associated with lines using local facilities only and short haul lines			
At Centrex-CU service locations	$18.44	$61.48	┐
At Centrex-CO service locations	18.44	61.48	
Associated with long haul lines, lines in group channels and interstate mileage lines			
At Centrex-CU service locations	30.74	61.48	
At Centrex-CO service locations	30.74	61.48	
Exchange connect charge (applicable in addition to switching tie line terminal rate where such terminal is arranged for connection to normal exchange trunks for outgoing service)			(C)
Message rate	1.23*	None	
Flat rate	3.68*	None	

*This rate does not apply to tie line terminals associated with lines extending between a Centrex service and a supplemental PBX system as specified in I.3.l. following. ┘

2. Mileage	Mileage rate specified in Section 7

(2) Tie lines between a Centrex Service and another type of switchboard system of the same subscriber or a service of another subscriber

(a) Tie line terminals, each	
At Centrex service locations	Rates and charges specified in d. (1) (b) 1. preceding
At Centralized Switching service locations	Rates and charges specified in J.3.d.(1) of this Section
At other locations	Rates and charges specified in B.8. or C.3.i. of this Section
(b) Mileage	**Mileage rate specified in Section 7

**The charges specified in D.6 of Section 7 for Airport Lines apply where both terminals of the line are located on an airport where Airport Areas have been established.

Effective 2/3/72, *1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72

Issued January 27, 1972. Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1613
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. **Rates and Charges** (Cont'd)
   - d. Tie Lines (Cont'd)
     - (1) Tie lines between Centrex services of the same subscriber (Cont'd)
       - (b) Terminals in different building areas (Cont'd)
         - 1. Tie line terminals (Cont'd)

	Monthly Rate	Connection Charge
b. Switching tie line terminals, each		
Associated with lines using local facilities only and short haul lines		
At Centrex-CU service locations	$18.44	$61.48
At Centrex-CO service locations	18.44	61.48
Associated with long haul lines, lines in group channels and interstate mileage lines		
At Centrex-CU service locations	30.74	61.48
At Centrex-CO service locations	30.74	61.48
Exchange connect charge (applicable in addition to switching tie line terminal rate where such terminal is arranged for connection to normal exchange trunks for outgoing service)		
Message rate	1.23*	None
Flat rate	3.68*	None

*This rate does not apply to tie line terminals associated with lines extending between a Centrex service and a supplemental PBX system as specified in I.3.1. following.

2. Mileage	Mileage rate specified in Section 7

(2) Tie lines between a Centrex Service and another type of switchboard system of the same subscriber or a service of another subscriber

(a) Tie line terminals, each	
At Centrex service locations	Rates and charges specified in d. (1) (b) 1. preceding
At Centralized Switching service locations	Rates and charges specified in J.3.d.(1) of this Section
At other locations	Rates and charges specified in B.8. or C.3.i. of this Section
(b) Mileage	**Mileage rate specified in Section 7

**The mileage rates applicable to Airport lines and World Trade Center lines are as provided in paragraph D.6. and D.7. respectively of Section 7. (T)

SUPERSEDED - CANCELLED
EFFECTIVE

E1614
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26, First Revised Page 26, Second Revised Page 26, Third Revised Page 26, Fifth Revised Page 26, Seventh Revised Page 26, Eighth Revised Page 26, Tenth Revised Page 26, Twelfth Revised Page 26

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R.
Secretary.

E1615
Exhibit 271

Public Service Commission
OCT 11 1961
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N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for at the rate of 5¢ each. (No allowance.)
f. Message Unit Charges (New York Metropolitan Exchange Area and Amityville, Cold Spring Harbor and Farmingdale)	All message units are charged for at the rate of 5¢ each. (No allowance.)
g. Toll Calls	All toll calls are charged for at Tariff rates.
h. Arrangements for toll billing information	
(1) Station number toll billing	None
(2) Code toll billing	Rate specified in E.19. of this Section

i. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed. (N)

(2) Dial PBX Switchboard System subscribers having Type 3 or Type 4 dial apparatus may convert to Centrex-CO Service subject to the payment of termination charges on their existing equipment.

(3) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service.

(4) Dial PBX Switchboard System subscribers having Type 3 or Type 4 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the existing switchboard is retained in place, the location of the stations is not changed and the dial apparatus is not moved. Where a push button console switchboard or a cord switchboard wired for released loop operation is substituted for the existing switchboard, termination charges apply for the existing switchboard.

(5) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service.

j. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

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1 ____ 26
EFFECTIVE 8-1-63

Issued October 10, 1961. Effective December 1, 1961.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York 7, N. Y.

E1616
Exhibit 271

PRIVATE BRANCH EXCHANGE [illegible]

Public Service Commission
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JUN 24 1963
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ALBANY, N. Y.

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for a[illegible] each. (No a[illegible])
f. Message Unit Charges (New York Metropolitan Exchange Area and Amityville, Cold Spring Harbor and Farmingdale)	All message units are charged for at the rate of 5¢ each. (No allowance.)
g. Toll Calls	All toll calls are charged for at Tariff rates.
h. Arrangements for toll billing information	
(1) Station number toll billing	None
(2) Code toll billing	Rate specified in E.19. of this Section
i. Toll Diversion	$15.00 per month per 100 primary stations or fraction thereof equipped. (C)

j. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed.

(2) Dial PBX Switchboard System subscribers having Type 3 or Type 4 dial apparatus may convert to Centrex-CO Service subject to the payment of termination charges on their existing equipment.

(3) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service.

(4) Dial PBX Switchboard System subscribers having Type 3 or Type 4 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the existing switchboard is retained in place, the location of the stations is not changed and the dial apparatus is not moved. Where a push button console switchboard or a cord switchboard wired for released loop operation is substituted for the existing switchboard, termination charges apply for the existing switchboard.

(5) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service.

k. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

SUPERSEDED - CANCELLED
BY
SUPP. ___ TO PSC NO. 800
2 REVISED LEAF SHEET PAGE 26
EFFECTIVE Sept 1, 1966

E1617
Exhibit 271

P. S. C. No. 800--Telephone

New York Telephone Company

Section 4
2nd Revised Page 26
Superseding 1st Revised Page 26

22 1966

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for at the rate of 5¢ each. (No allowance.)	
f. Message Unit Charges	All message units are charged for at the rate of 5¢ each. (No allowance.)	(T)
g. Toll Calls	All [illegible] calls are charged for [illegible] Tariff rates.	
h. Arrangements for toll billing information		
(1) Station number toll billing	None	
(2) Code toll billing	Rate specified in E.19. of this Section	
i. Toll Diversion	$15.00 per month per 100 primary stations or fraction thereof equipped.	

Pt-Sec 4
26
3 June 1966

j. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed.

(2) Dial PBX Switchboard System subscribers having Type 3 or Type 4 dial apparatus may convert to Centrex-CO Service subject to the payment of termination charges on their existing equipment.

(3) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service.

(4) Dial PBX Switchboard System subscribers having Type 3 or Type 4 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the existing switchboard is retained in place, the location of the stations is not changed and the dial apparatus is not moved. Where a push button console switchboard or a cord switchboard wired for released loop operation is substituted for the existing switchboard, termination charges apply for the existing switchboard.

(5) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service.

k. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

Issued July 20, 1966. Effective September 1, 1966.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1618
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
3rd Revised Page 26
Superseding 2nd Revised Page 26

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for at the rate of 5¢ each. (No allowance.)
f. Message Unit Charges	All message units are charged for at the rate of 5¢ each. (No allowance.)
g. Toll Calls	All toll calls are charged for at Tariff rates.
h. Arrangements for toll billing information	
(1) Station number toll billing	None
(2) Code toll billing	Rate specified in E.19. of this Section
i. Toll Diversion	$15.00 per month per 100 primary stations or fraction thereof equipped.

j. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed.

(D)

(2) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service. (T)

[illegible] 5 [illegible] 800-Sect 4 26 [illegible] FEB 20 1970

Effective date POSTPONED to January 1, 1968 [illegible] No. 19

(D)

(3) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service. (T)

k. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

Issued October 11, 1967. Effective December 1, 1967.

By James R. Billingsley, General Attorney,
140 West Street, New York, N. Y. 10007

E1619
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

Public Service Commission
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FEB 19 1970
FILES

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for at the rate of 5½¢ each. (No allowance.)	(C)
f. Message Unit Charges	All message units are charged for at the rate of 5½¢ each. (No allowance.)	(C)
g. Toll Calls	All toll calls are charged for at Tariff rates.	
h. Arrangements for toll billing information		
(1) Station number toll billing	None	
(2) Code toll billing	Rate specified in E.19. of this Section	
i. Toll Diversion		
Stations	$16.22 per month per 100 primary stations or fraction thereof equipped.	(C)
Tie Lines	25¢ per month per tie line equipped	(N) (N)

j. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed.

(2) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service.

(3) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service.

k. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

SUPERSEDED - CANCELLED
SUPP ______ BY P.S.C. NY [illegible]
7 REVISED SHEET PAGE 26
EFFECTIVE 7/1/71

Effective 2/26/70 *under authority of the Public Service Commission, State of New York, Special Permission Order No.* TrT 2721 *dated* 2/24/70 *, and under Section 113 of the Public Service Law in Case 25155.*

Issued February 19, 1970. Effective March 21, 1970.

By James R. Billingsley, General Attorney,
140 West Street, New York, N. Y. 10007

E1620
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Sectio: 4
7th Revised Page 26
Superseding 5th Revised Page 26

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TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for at the rate of 6¼¢ each. (No allowance.)	(C)
f. Message Unit Charges	All message units are charged for at the rate of 6¼¢ each. (No allowance.)	(C)
g. Toll Calls	All toll calls are charged for at Tariff rates.	
h. Arrangements for toll billing information		
(1) Station number toll billing	None	
(2) Code toll billing	Rate specified in E.19. of this Section	
i. Toll Diversion		
Stations	$18.30 per month per 100 primary stations or fraction thereof equipped.	(C)
Tie Lines	28¢ per month per tie line equipped	(C)

j. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed.

(2) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service.

(3) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service.

k. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

800 Sect 4
26
8
2/3/72

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective ~~under~~ authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated .

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1621
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
8th Revised **Page 26**
Superseding 7th Revised **Page 26**

Public Service Commission
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TARIFF FILES

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

e. Local Message Charges	All local messages are charged for at the rate of 7.1¢ each. (No allowance.)	(C)
f. Message Unit Charges	All message units are charged for at the rate of 7.1¢ each. (No allowance.)	(C)
g. Toll Calls	All toll calls are charged for at Tariff rates.	
h. Arrangements for toll billing information		
(1) Station number toll billing	None	
(2) Code toll billing	Rate specified in E.19. of this Section	
i. Toll Diversion		
Stations	$19.95 per month per 100 primary stations or fraction thereof equipped.	(C)
Tie Lines	31¢ per month per tie line equipped	(C)

j. Changes from Dial PBX Switchboard Systems to Centrex Service

(1) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CO Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed.

(2) Dial PBX Switchboard System subscribers having Type 1 or Type 2 dial apparatus may convert to Centrex-CU Service without payment of termination charges on their existing equipment provided that the location of the stations is not changed and the dial apparatus is not moved. The subscriber may retain the existing switchboard provided that it is not moved and does not require major alteration to adapt it for use with Centrex-CU Service.

(3) Termination charge obligations outstanding on the existing Dial PBX Switchboard System will continue in force and effect and will be transferred to the Centrex Service.

k. Changes from Manual Multiple PBX Switchboard Systems to Centrex Service

Termination charges apply to the Manual Multiple PBX Switchboard System.

SUPERSEDED - CANCELLED
800-Sect 4
SUPP 26
10
EFFECTIVE 12/2/73

Effective 2/3/72*, 1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72

Issued January 27, 1972.
Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1622
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

I have compared the preceding copy with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26A, First Revised Page 26A, Third Revised Page 26A, Fifth Revised Page 26A, Sixth Revised Page 26A, Eighth Revised Page 26A, Eleventh Revised Page 26A, Twelfth Revised Page 26A

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public
Service Commission, at the city of Albany, this
2nd *day of* May
one thousand nine hundred Seventy-Seven

Samuel R. Madison
Secretary.

E1623
Exhibit 271

Public Service Commission
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ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

l. Supplemental PBX Systems Associated with Centrex Service

Where incoming central office calls to the supplemental PBX system stations are completed by the Centrex switchboard attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as tie lines and are subject to the tie line rates and charges specified in I.3.d. preceding. Where incoming calls to the supplemental PBX system stations are completed by the PBX attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as Centrex lines and are subject to the rates and charges for primary stations specified in I.3.c. preceding. (C)

In addition, the business additional trunk rates and charges applicable in the exchange where the Centrex principal location is established apply to each such tie line or Centrex line which may be connected to the general exchange system. The message rate additional trunk rate applies where message rate Centrex service is furnished, the flat rate additional trunk rate applies where flat rate Centrex service is furnished and the additional airport service PBX trunk rate applies where Centrex-CO airport service is furnished.

Tariff rates and charges specified in B. and C. of this Section apply for the supplemental PBX system.

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REVISED SHEET
PAGE
EFFECTIVE July 1, 1965

E1624
Exhibit 271

Public Service Commission
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MAY 27 1965
TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

l. Supplemental PBX Systems Associated with Centrex Service

Where incoming central office calls to the supplemental PBX system stations are completed by the Centrex switchboard attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as tie lines and are subject to the tie line rates and charges specified in I.3.d. preceding. Where incoming calls to the supplemental PBX system stations are completed by the PBX attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as Centrex lines and are subject to the rates and charges for primary stations specified in I.3.c. preceding.

In addition, the business additional trunk rates and charges applicable in the exchange where the Centrex principal location is established apply to each such tie line or Centrex line which may be connected to the general exchange system. The message rate additional trunk rate applies where message rate Centrex service is furnished, the flat rate additional trunk rate applies where flat rate Centrex service is furnished and the additional airport service PBX trunk rate applies where Centrex-CO airport service is furnished.

Tariff rates and charges specified in B. and C. of this Section apply for the supplemental PBX system.

	Monthly Rate	Installation Charge	
m. Network Access Terminals, each	$25.00	$50.00	(N)

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Issued May 21, 1965.
Effective July 1, 1965.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1625
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
3rd Revised Page 26A
Superseding 1st Revised Page 26A
(2nd Revised Page 26A Canceled)

PRIVATE BRANCH EXCHANGE SERVICE

Public Service Commission
RECEIVED
FEB 19 1970
TARIFF FILES
N. Y.

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

l. Supplemental PBX Systems Associated with Centrex Service

Where incoming central office calls to the supplemental PBX system stations are completed by the Centrex switchboard attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as tie lines and are subject to the tie line rates and charges specified in I.3.d. preceding. Where incoming calls to the supplemental PBX system stations are completed by the PBX attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as Centrex lines and are subject to the rates and charges for primary stations specified in I.3.c. preceding.

In addition, the business additional trunk rates and charges applicable in the exchange where the Centrex principal location is established apply to each such tie line or Centrex line which may be connected to the general exchange system. The message rate additional trunk rate applies where message rate Centrex service is furnished, the flat rate additional trunk rate applies where flat rate Centrex service is furnished and the additional airport service PBX trunk rate applies where Centrex-CO airport service is furnished.

Tariff rates and charges specified in B. and C. of this Section apply for the supplemental PBX system.

	Monthly Rate	Connection Charge	
m. Network Access Terminals, each	$27.03	$54.05	(C)

SUPERSEDED - CANCELLED
BY
SUPP. ______ TO P.S.C. NY
5 REVISED LEAF SHEET PAGE 26A
EFFECTIVE 7/4/71

Effective 3/26/70 *under authority of the Public Service Commission, State of New York, Special Permission Order No.* TY 3731 *dated* 2/24/70 *, and under Section 113 of the Public Service Law in Case 25155.*

Issued February 19, 1970. Effective March 21, 1970.

By James R. Billingsley, General Attorney,
140 West Street, New York, N. Y. 10007

E1626
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
5th Revised Page 26A
Superseding 3rd Revised Page 26A

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TARIFF FILES
ALBANY, N.Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

l. Supplemental PBX Systems Associated with Centrex Service

Where incoming central office calls to the supplemental PBX system stations are completed by the Centrex switchboard attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as tie lines and are subject to the tie line rates and charges specified in I.3.d. preceding. Where incoming calls to the supplemental PBX system stations are completed by the PBX attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as Centrex lines and are subject to the rates and charges for primary stations specified in I.3.c. preceding.

In addition, the business additional trunk rates and charges applicable in the exchange where the Centrex principal location is established apply to each such tie line or Centrex line which may be connected to the general exchange system. The message rate additional trunk rate applies where message rate Centrex service is furnished, the flat rate additional trunk rate applies where flat rate Centrex service is furnished and the additional airport service PBX trunk rate applies where Centrex-CO airport service is furnished.

Tariff rates and charges specified **in B. and C. of this Section apply for the** supplemental PBX system.

	Monthly Rate	Connection Charge	
m. Network Access Terminals, each	$30.49	$60.97	(C)

800-Sect 4
26A

6
2/3/72

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1627
Exhibit 271

Public Service Commission
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JAN 27 1972
TARIFF FILES
ALBANY N.Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

3. Rates and Charges (Cont'd)

l. Supplemental PBX Systems Associated with Centrex Service

Where incoming central office calls to the supplemental PBX system stations are completed by the Centrex switchboard attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as tie lines and are subject to the tie line rates and charges specified in I.3.d. preceding. Where incoming calls to the supplemental PBX system stations are completed by the PBX attendant, the lines extending between the Centrex service and the supplemental PBX system are classified as Centrex lines and are subject to the rates and charges for primary stations specified in I.3.c. preceding.

In addition, the business additional trunk rates and charges applicable in the exchange where the Centrex principal location is established apply to each such tie line or Centrex line which may be connected to the general exchange system. The message rate additional trunk rate applies where message rate Centrex service is furnished, the flat rate additional trunk rate applies where flat rate Centrex service is furnished and the additional airport service PBX trunk rate applies where Centrex-CO airport service is furnished.

Tariff rates and charges specified in B. and C. of this Section apply for the supplemental PBX system.

	Monthly Rate	Connection Charge	
m. Network Access Terminals, each	$33.23	$66.46	(C)

SUPERSEDED - CANCELLED
800-Sect 4
26A
REVISED SHEET PAGE
EFFECTIVE 8/3/73

Effective 2/3/72, 1972, under authority of the Public Service Commission, State of New York, in Case No. 26080. by order dated 2/1/72

Issued January 27, 1972. Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1628
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original

New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26B, First Revised Page 26B, Fourth Revised Page 26B, Sixth Revised Page 26B, Seventh Revised Page 26B, Eighth Revised Page 26B, Tenth Revised Page 26B, Eleventh Revised Page 26B

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1629
Exhibit 271
P. S. C. No. 800—Telephone

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JUL 22 1966
TARIFF FILES

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service

a. General

Where a college or school subscribes to Centrex service for administrative use under the provisions of Paragraphs I.1., I.2. and I.3. preceding, stations may be furnished in students' rooms in dormitories subject to the following regulations, rates and charges.

b. Regulations

In addition to the regulations for service furnished in colleges and schools specified in Paragraph A.10. of this Section, the following regulations apply for Centrex Dormitory Service:

(1) Message rate dormitory stations may be furnished only in exchanges where residence individual line message rate service is furnished. Flat rate dormitory stations may be furnished only in exchanges where residence individual line flat rate service is furnished. (T)

(2) Where flat rate service and message rate service are furnished in the exchange, flat rate and message rate stations may be connected to the same Centrex service, provided, however, that all stations in students' rooms must be of the same type and all stations in administrative quarters must be of the same type.

(3) Bridged stations may be located only in the same room or suite of rooms in which the associated primary station is located.

c. Rates and Charges

(1) Monthly Rates	Centrex-CO	Centrex-CU	
(a) Primary stations, each			
Message Rate			
In exchanges where residence individual line message rate service is furnished.			
Where the monthly base rate for residence auxiliary lines is:			
$3.10	$3.25	$3.10	
3.35	3.50	3.35	(C)
3.60	3.75	3.60	(C)
Flat Rate			
Where the monthly base rate for individual line residence flat rate service is:			
$4.25 or less	4.00	3.85	(C)
4.50	4.25	4.10	(C)
4.75	4.50	4.35	
5.00	4.75	4.60	
5.25	5.00	4.85	
5.50	5.25	5.10	
6.00	5.75	5.60	
6.75	6.50	6.35	(C)
7.00	6.75	6.60	(C)
(b) Bridged stations, each	1.00	1.00	

SUPERSEDED - CANCELLED
BY
SUPP. ______ TO PSC BY See Sec 4
REVISED SHEET, LEAF, PAGE 31B
EFFECTIVE Feb 4 1967

E1630
Exhibit 271
P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
1st Revised Page 26B
Superseding Original Page 26B

DEC 29 1966
TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service

a. General

Where a college or school subscribes to Centrex Service for administrative use under the provisions of Paragraphs I.1., I.2. and I.3. preceding, stations may be furnished in student's rooms in dormitories provided the colleges and schools agree to furnish appropriate information and establish rules to assist the Company in collecting charges for local and toll calls from the students, subject to the following rates, charges and regulations (T)

b. Regulations

In addition to the regulations for service furnished in colleges and schools specified in Paragraph A.10. of this Section, the following regulations apply for Centrex Dormitory Service:

(1) Message rate dormitory stations may be furnished only in exchanges where residence individual line message rate service is furnished. Flat rate dormitory stations may be furnished only in exchanges where residence individual line flat rate service is furnished.

(2) Where flat rate service and message rate service are furnished in the exchange, flat rate and message rate stations may be connected to the same Centrex Service, provided, however, that all stations in students' rooms must be of the same type and all stations in administrative quarters must be of the same type.

(3) Bridged stations may be located only in the same room or suite of rooms in which the associated primary station is located.

c. Rates and Charges

(1) Monthly Rates

(a) Primary stations, each

1. Message Rate

In exchanges where residence individual line message rate service is furnished.

Where the monthly base rate for **a residence auxiliary line is:**	Centrex-CO	Centrex-CU
$3.10	$4.00*	$3.85*
3.35	4.25	4.10
3.60	4.50	4.35

*Exception: On existing installations in New York City when the Telephone Company bulk-bills dormitory station message unit charges to the college or school, the following rates will be continued on an obsolete basis: (C)

Primary stations, each

Centrex-CO	$3.25
Centrex-CU	3.10

Stations may be added or moved within the same dormitory. If stations are connected in other dormitories, the entire Centrex Dormitory Service shall be subject to the rates set forth above for message rate stations.

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800 Sec 4
26B

4

Issued December 20, 1966. Effective February 1, 1967.

By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1631
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
4th Revised Page 26B
Superseding 1st Revised Page 26B
(2nd and 3rd Revised Pages 26B Canceled)

Public Service Commission
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FEB 27 1970
FILES
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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service

a. General

Where a college or school subscribes to **Centrex Service for administrative use** under the provisions of Paragraphs I.1., I.2. and I.3. preceding, stations may be furnished in students' rooms in dormitories provided the colleges and schools agree to furnish appropriate information and establish rules to assist **the Company in collecting charges** for local and toll **calls from the students,** subject to the following rates, charges and regulations.

b. Regulations

In addition to the regulations for service furnished in colleges and schools specified in Paragraph A.10. of this Section, the following regulations apply for Centrex Dormitory Service:

(1) Message rate dormitory stations may be furnished only in exchanges where residence individual line message rate service is furnished. Flat rate dormitory stations may be furnished only in exchanges where residence individual line flat rate service is furnished.

(2) Where flat rate service and message rate service are furnished in the exchange, flat rate and message rate stations may be connected to the same **Centrex Service, provided,** however, that all stations in students' rooms must be of the same type and all stations in administrative quarters must be of the same type.

(3) Bridged stations may be located only in the same room or suite of rooms in which the associated primary station is located.

c. Rates and Charges

	Centrex-CO	Centrex-CU	
(1) Monthly Rates			
(a) Primary stations, each			
1. Message Rate			
In exchanges where residence individual line message rate service is furnished.			
Where the monthly base rate for a residence auxiliary line is:			
$3.36	$4.03*	$3.88*	(C)
3.63	4.28	4.13	(C)
3.91	4.53	4.38	(C)

*Exception: On existing installations in New York City when the Telephone Company bulk-bills dormitory station message unit charges to the college or school, the following rates will be continued on an obsolete basis:

Primary stations, each		
Centrex-CO	$3.28	(C)
Centrex-CU	3.13	(C)

Stations may be added or moved within the same dormitory. If stations are connected in other dormitories, the entire Centrex Dormitory Service shall be subject to the rates set forth above for message rate stations.

SUPERSEDED - CANCELLED
BY
P.S.C. NO. 800-Sec 4
6 REVISED SHEET LEAF PAGE 26B
EFFECTIVE 7/1/71

Effective February 26, 1970, under authority of the Public Service Commission, State of New York, Special Permission Order No. T&T 2721 dated February 24, 1970, and under Section 113 of the Public Service Law in Case 25155.

Issued February 24, 1970. Effective April 2, 1970.

By James R. Billingsley, General Attorney,
140 West Street, New York, N. Y. 10007

E1632
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
6th Revised Page 26B
Superseding 4th Revised Page 26B.

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JUL 16 1971
TARIFF FILES
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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service

a. General

Where a college or school subscribes to **Centrex Service for administrative use** under the provisions of Paragraphs I.1., I.2. and I.3. preceding, stations may be furnished in students' rooms in dormitories provided the colleges and schools agree to furnish appropriate information and establish rules to assist **the Company in collecting charges** for local and toll **calls from the students,** subject to the following rates, charges and regulations.

b. Regulations

In addition to the regulations for service furnished in colleges and schools specified in Paragraph A.10. of this Section, the following regulations apply for Centrex Dormitory Service:

(1) Message rate dormitory stations may be furnished only in exchanges where residence individual line message rate service is furnished. Flat rate dormitory stations may be furnished only in exchanges where residence individual line flat rate service is furnished.

(2) Where flat rate service and message rate service are furnished in the exchange, flat rate and message rate stations may be connected to the same **Centrex Service, provided,** however, that all stations in students' rooms must be of the same type and all stations in administrative quarters must be of the same type.

(3) Bridged stations may be located only in the same room or suite of rooms in which the associated primary station is located.

c. Rates and Charges

(1) Monthly Rates	**Centrex-CO**	**Centrex-CU**	
(a) Primary stations, each			
1. Message Rate			
In exchanges where residence individual line message rate service is furnished.			
Where the monthly base rate for a residence auxiliary line is:			
$3.79	$4.55*	$4.38*	(C)
4.09	4.83	4.66	(C)
4.41	5.11	4.94*	(C)

***Exception:** On existing installations in New York City when the Telephone Company bulk-bills dormitory station message unit charges to the college or school, the following rates will be continued on an obsolete basis:

Primary stations, each		
Centrex-CO	$3.70	(C)
Centrex-CU	3.53	(C)

Stations may be added or moved within the same dormitory. If stations are connected in other dormitories, the entire Centrex Dormitory Service shall be subject to the rates set forth above for message rate stations.

800-Sect 4
26B

7
EFFECTIVE 2/3/72

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated .

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1633
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
7th Revised Page 26B
Superseding 6th Revised Page 26B

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N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service

a. General

Where a college or school subscribes to **Centrex Service for administrative use** under the provisions of Paragraphs I.1., I.2. and I.3. preceding, stations may be furnished in students' rooms in dormitories provided the colleges and schools agree to furnish appropriate information and establish rules to assist **the Company in collecting charges** for local and toll **calls from the students,** subject to the following rates, charges and regulations.

b. Regulations

In addition to the regulations for service furnished in colleges and schools specified in Paragraph A.10. of this Section, the following regulations apply for Centrex Dormitory Service:

(1) Message rate dormitory stations may be furnished only in exchanges where residence individual line message rate service is furnished. Flat rate dormitory stations may be furnished only in exchanges where residence individual line flat rate service is furnished.

(2) Where flat rate service and message rate service are furnished in the exchange, flat rate and message rate stations may be connected to the same **Centrex Service, provided,** however, that all stations in students' rooms must be of the same type and all stations in administrative quarters must be of the same type.

(3) Bridged stations may be located only in the same room or suite of rooms in which the associated primary station is located.

c. Rates and Charges

(1) Monthly Rates

(a) Primary stations, each

1. Message Rate

In exchanges where residence individual line message rate service is furnished.

Where the monthly base rate for a residence auxiliary line is:	**Centrex-CO**	**Centrex-CU**	
$3.79	$4.96*	$4.77*	(C)
4.09	5.26	5.08	(C)
4.41	5.57	5.38	(C)

***Exception:** On existing installations in New York City when the Telephone Company bulk-bills dormitory station message unit charges to the college or school, the following rates will be continued on an obsolete basis:

Primary stations, each		
Centrex-CO	$4.03	(C)
Centrex-CU	3.85	(C)

Stations may be added or moved within the same dormitory. If stations are connected in other dormitories, the entire Centrex Dormitory Service shall be subject to the rates set forth above for message rate stations.

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1972

Effective 2/3/72*, 1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72
Issued January 27, 1972. Effective FEB 3 1972
By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1634
Exhibit 271
P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
8th Revised Page 26B
Superseding 7th Revised Page 26B

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service

a. General

Where a college or school subscribes to Centrex Service for administrative use under the provisions of Paragraphs I.1., I.2. and I.3. preceding, stations may be furnished in students' rooms in dormitories provided the colleges and schools agree to furnish appropriate information and establish rules to assist the Company in collecting charges for dormitory stations (as set forth in c. below) and local and toll calls from the students, subject to the following rates, charges and regulations. (C)

b. Regulations

In addition to the regulations for service furnished in colleges and schools specified in Paragraph A.10. of this Section, the following regulations apply for Centrex Dormitory Service:

(1) Message rate dormitory stations may be furnished only in exchanges where residence individual line message rate service is furnished. Flat rate dormitory stations may be furnished only in exchanges where residence individual line flat rate service is furnished.

(2) Where flat rate service and message rate service are furnished in the exchange, flat rate and message rate stations may be connected to the same **Centrex Service, provided,** however, that all stations in students' rooms must be of the same type and all stations in administrative quarters must be of the same type.

(3) Bridged stations may be located only in the same room or suite of rooms in which the associated primary station is located.

(4) Where message rate service is furnished, the Company will bill and collect directly from the students for dormitory stations and local and toll calls only where message units are recorded on Automatic Message Accounting facilities. (N)

c. Rates and Charges

(1) Monthly Rates

(a) Primary stations, each

1. Message Rate

In exchanges where residence individual line message rate service is furnished.

Where the monthly base rate for a residence auxiliary line is:

	Centrex-CO	Centrex-CU
$3.79	$4.96*	$4.77*
4.09	5.26	5.08
4.41	5.57	5.38

*Exception: On existing installations in New York City when the Telephone Company bulk-bills dormitory station message unit charges to the college or school, the following rates will be continued on an obsolete basis:

Primary stations, each

Centrex-CO	$4.03
Centrex-CU	3.85

Stations may be added or moved within the same dormitory. If stations are connected in other dormitories, the entire Centrex Dormitory Service shall be subject to the rates set forth above for message rate stations.

SUPERSEDED - [illegible]
9th Sec 4
26B
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Aug 14, 1973

Issued August 7, 1972. Effective September 10, 1972.
By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1635
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

I have compared the preceding copy with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26C, First Revised Page 26C, Fourth Revised Page 26C, Sixth Revised Page 26C Seventh Revised Page 26C, Eighth Revised Page 26C, Tenth Revised Page 26C

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1636
Exhibit 271

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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service (Cont'd)

c. Rates and Charges (Cont'd)

(2) Connection charges#		(C)
(a) Primary stations, each	$5.00	
(b) Bridged stations, each	5.00	

The connection charge does not apply when a manual or dial PBX system is converted to a Centrex service provided the station is not moved.

#When stations are reconnected in place after a period when the college or school is not in session, the rewire schedule specified in Section 15 of this Tariff for business service applies for the reconnection of primary stations; no charge applies for the reconnection of bridged stations and supplemental station equipment. (C)

(3) Move charges	
Each station	$5.00

(4) Mileage charges where applicable are as specified in Paragraph I.3.c.(5) of this Section.

(5) Application of Minimum Charge

The minimum monthly charge for 100 primary non-restricted stations, specified in Paragraph I.3.c. preceding, applies for administrative stations subject to the rates set forth in Paragraph I.3.c. Dormitory stations of the same type (flat or message) as the administrative stations may be counted toward the minimum, and the dormitory station rates herein then apply only after the administrative station minimum is exceeded. (T)

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EFFECTIVE ~~Feb 4, 1967~~

E1637
Exhibit 271

Public Service Commission
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ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service (Cont'd)

c. Rates and Charges (Cont'd)

(1) Monthly Rates (Cont'd)

(a) Primary stations, each (Cont'd)

2. Flat Rate

Where the monthly base rate for individual line residence flat rate service is:

	Centrex-CO	Centrex-CU	
$4.25 or less	$4.25	$4.10	
4.50	4.50	4.35	
4.75	4.75	4.60	
5.00	5.00	4.85	
5.25	5.25	5.10	(C)
5.50	5.50	5.35	
6.00	6.00	5.85	
6.75	6.75	6.60	
7.00	7.00	6.85	
(b) Bridged stations, each	1.00	1.00	

(2) Connection charges#

(a) Primary stations, each	$5.00
(b) Bridged stations, each	5.00

The connection charge does not apply when a manual or dial PBX system is converted to a Centrex Service provided the station is not moved.

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EFFECTIVE FEB 2 3 1970

# 1. No charge applies for the reconnection in place of bridged stations and supplemental station equipment. (T) (T)

2. Where the Telephone Company bills the college or school for local and toll calls from dormitory stations, primary stations reconnected in place after a period when the college or school is not in session are subject to the rewire schedule for business service specified in Section 15 of this Tariff. (C) (C)

(3) Move charges
Each station $5.00

(4) Mileage charges where applicable are as specified in Paragraph I.3.c.(5) of this Section.

(5) Application of Minimum Charge
The minimum monthly charge for 100 primary non-restricted stations, specified in Paragraph I.3.c. preceding, applies for administrative stations subject to the rates set forth in Paragraph I.3.c. Dormitory stations of the same type (flat or message) as the administrative stations may be counted toward the minimum, and the dormitory station rates herein then apply only after the administrative station minimum is exceeded.

(6) Restoral Charge
Where the Telephone Company bills the student directly for toll and/or local calls, stations may be restricted from access to the exchange system in the event of non-payment of charges due. A restoral charge of $2.00 applies for restoring access to the exchange system. (C)

Issued December 20, 1966. Effective February 1, 1967.
By Eric B. Nelson, Associate General Counsel,
140 West Street, New York, N. Y. 10007

E1638
Exhibit 271

P. S. C. No. 800—Telephone

Public Service Commission
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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service (Cont'd)

c. Rates and Charges (Cont'd)

(1) Monthly Rates (Cont'd)

(a) Primary stations, each (Cont'd)

2. Flat Rate

Where the monthly basic group rate for individual line residence flat rate service is:	Centrex-CO	Centrex-CU	
$4.61 or less	$4.31	$4.16	
4.88	4.57	4.42	
5.15	4.83	4.68	
5.43	5.10	4.95	
5.70	5.36	5.21	
5.97	5.62	5.47	
6.51	6.14	5.99	(C)
7.32	6.91	6.76	
7.60	7.18	7.03	
(b) Bridged stations, each	1.00	1.00	

(2) Connection charges#

(a) Primary stations, each $8.75

(b) Bridged stations, each 8.75

(D)

# 1. No charge applies for the reconnection in place of bridged stations and supplemental station equipment.

2. Primary stations reconnected in place after a period when the college or school is not in session are subject to the rewire schedule for residence PBX service specified in Section 15 of this Tariff. (C) (T)

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(3) Move charges
Each station $8.75

(4) Mileage charges where applicable are as specified in Paragraph I.3.c.(5) of this Section.

(5) Application of Minimum Charge
The minimum monthly charge for 100 primary non-restricted stations, specified in Paragraph I.3.c. preceding, applies for administrative stations subject to the rates set forth in Paragraph I.3.c. Dormitory stations of the same type (flat or message) as the administrative stations may be counted toward the minimum, and the dormitory station rates herein then apply only after the administrative station minimum is exceeded.

(6) Restoral Charge
Where the Telephone Company bills the student directly for toll and/or local calls, stations may be restricted from access to the exchange system in the event of non-payment of charges due. A restoral charge of $5.00 applies for restoring access to the exchange system. (C)

Effective February 26, 1970, under authority of the Public Service Commission, State of New York, Special Permission Order No. T&T 2721 dated February 24, 1970, and under Section 113 of the Public Service Law in Case 25155.

E1639
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
6th Revised Page 26C
Superseding 4th Revised Page 26C

Public Service Commission
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JUL 16 1971
TARIFF FILES
ALBANY, N. Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service (Cont'd)

c. Rates and Charges (Cont'd)

(1) Monthly Rates (Cont'd)

(a) Primary stations, each (Cont'd)

2. Flat Rate

Where the monthly basic group rate for individual line residence flat rate service is:

	Centrex-CO	Centrex-CU	
$5.20 or less	$4.86	$4.69	
5.50	5.15	4.99	
5.81	5.45	5.28	
6.13	5.75	5.58	
6.43	6.05	5.88	
6.73	6.34	6.17	
7.34	6.93	6.76	(C)
8.26	7.79	7.63	
8.57	8.10	7.93	
(b) Bridged stations, each	1.13	1.13	

(2) Connection charges#

(a) Primary stations, each	$8.75
(b) Bridged stations, each	8.75

800-Sec 4
26 C

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# 1. No charge applies for the reconnection in place of bridged stations and supplemental station equipment.

2. Primary stations reconnected in place after a period when the college or school is not in session are subject to the rewire schedule for residence PBX service specified in Section 15 of this Tariff.

(3) Move charges
Each station $8.75

(4) Mileage charges where applicable are as specified in Paragraph I.3.c.(5) of this Section.

(5) Application of Minimum Charge
The minimum monthly charge for 100 primary non-restricted stations, specified in Paragraph I.3.c. preceding, applies for administrative stations subject to the rates set forth in Paragraph I.3.c. Dormitory stations of the same type (flat or message) as the administrative stations may be counted toward the minimum, and the dormitory station rates herein then apply only after the administrative station minimum is exceeded.

(6) Restoral Charge
Where the Telephone Company bills the student directly for toll and/or local calls, stations may be restricted from access to the exchange system in the event of non-payment of charges due. A restoral charge of $5.00 applies for restoring access to the exchange system.

Rates effective July 9, 1971, pursuant to Order of the Public Service Commission dated July 1, 1971 in Case 26080 and Sections 97 and 113 of the Public Service Law.

Effective , under authority of Public Service Commission, State of New York, Special Permission Order No. T. & T. , dated .

Issued July 16, 1971. Effective August 20, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1640
Exhibit 271

Public Service Commission
RECEIVED
JAN 27 1972
TARIFF FILES
ALBANY, N.Y.

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service (Cont'd)

c. Rates and Charges (Cont'd)

(1) Monthly Rates (Cont'd)

(a) Primary stations, each (Cont'd)

2. Flat Rate

Where the monthly basic group rate for individual line residence flat rate service is:

	Centrex-CO	Centrex-CU	
$5.67 or less	$5.30	$5.11	
6.00	5.61	5.44	
6.33	5.94	5.76	
6.68	6.27	6.08	
7.01	6.59	6.41	(C)
7.34	6.91	6.73	
8.00	7.55	7.37	
9.00	8.49	8.32	
10.01	9.56	9.37	
(b) Bridged stations, each	1.23	1.23	

(2) Connection charges#

(a) Primary stations, each $12.50 (C)

(b) Bridged stations, each 12.50 (C)

1. No charge applies for the reconnection in place of bridged stations and supplemental station equipment.

2. Primary stations reconnected in place after a period when the college or school is not in session are subject to the rewire schedule for residence PBX service specified in Section 15 of this Tariff.

(3) Move charges
Each station $12.50 (C)

(4) Mileage charges where applicable are as specified in Paragraph I.3.c.(5) of this Section.

(5) Application of Minimum Charge
The minimum monthly charge for 100 primary non-restricted stations, specified in Paragraph I.3.c. preceding, applies for administrative stations subject to the rates set forth in Paragraph I.3.c. Dormitory stations of the same type (flat or message) as the administrative stations may be counted toward the minimum, and the dormitory station rates herein then apply only after the administrative station minimum is exceeded.

(6) Restoral Charge
Where the Telephone Company bills the student directly for toll and/or local calls, stations may be restricted from access to the exchange system in the event of non-payment of charges due. A restoral charge of $6.25 applies for restoring access to the erchange system. (C)

Effective 2/3/72, *1972, under authority of the Public Service Commission, State of New York, in Case No. 26080.* by order dated 2/1/72

Issued January 27, 1972. Effective FEB 3 1972

By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1641
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

4. Centrex Dormitory Service (Cont'd)

c. Rates and Charges (Cont'd)

(1) Monthly Rates (Cont'd)

(a) Primary stations, each (Cont'd)

2. Flat Rate

Where the monthly basic group rate for individual line residence flat rate service is:	Centrex-CO	Centrex-CU
$5.67 or less	$5.30	$5.11
6.00	5.61	5.44
6.33	5.94	5.76
6.68	6.27	6.08
7.01	6.59	6.41
7.34	6.91	6.73
8.00	7.55	7.37
9.00	8.49	8.32
10.01	9.56	9.37
(b) Bridged stations, each	1.23	1.23

(2) Connection charges#

(a) Primary stations, each $12.50

(b) Bridged stations, each 12.50

# 1. No charge applies for the reconnection in place of bridged stations and supplemental station equipment.

2. Primary stations reconnected in place after a period when the college or school is not in session are subject to the rewire schedule for residence PBX service specified in Section 15 of this Tariff.

(3) Move charges

Each station $12.50

(4) Mileage charges where applicable are as specified in Paragraph I.3.c.(5) of this Section.

(5) Application of Minimum Charge

The minimum monthly charge for 100 primary non-restricted stations, specified in Paragraph I.3.c. preceding, applies for administrative stations subject to the rates set forth in Paragraph I.3.c. Dormitory stations of the same type (flat or message) as the administrative stations may be counted toward the minimum, and the dormitory station rates herein then apply only after the administrative station minimum is exceeded.

Exception: Dormitory stations may not be counted toward the minimum where the Telephone Company bills the students directly for the dormitory stations. (C)

SUPERSEDED
26C
Aug 7 1973

(6) Restoral Charge

In the event of non-payment of charges due, the Telephone Company may, upon notice to the student as provided in Paragraph H.4 of Section 1 of this Tariff (T)

a. Restrict the station from access to the exchange system where the Telephone Company bills students directly for toll and/or local calls and bills the college or school for the dormitory stations.

or

b. Restrict the station from access to both the exchange system and other stations on the Centrex system, where the Telephone Company bills the students directly for toll and/or local calls and for the dormitory stations. (C)

A restoral charge of $6.25 applies for restoring access to the exchange system or for restoring access to both the exchange system and other stations on the Centrex system. (C)

E1642
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

The preceding copy has been compared with the original

New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26D, First Revised Page 26D, Second Revised Page 26D, Fourth Revised Page 26D, Fifth Revised Page 26D, Sixth Revised Page 26D

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public
Service Commission, at the city of Albany, this
2nd *day of* May
one thousand nine hundred Seventy-Seven

Samuel R. Madison
Secretary.

E1643
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

5. Centrex II Service

a. General

Centrex II service provides specified service features in connection with Centrex-CO Service as defined in I.1. preceding.

b. Definitions and Descriptions of Features

Two types of Centrex II service are offered:

(1) **Centrex II—Incoming Calls**

This service includes the following features:

Call Transfer-Individual: station user may transfer an incoming exchange call to another station of the Centrex without attendant assistance.

Consultation Hold: station user may hold an incoming exchange call, originate a call to another station of the Centrex over the same line and return to the first call.

Add-On: station user may place an incoming exchange call on hold, originate a call to another station of the Centrex over the same line and add the first call to the connection for a threeway connection.

Trunk Answer From Any Station: station user may answer listed number calls when the switchboard is unattended. Such calls may be transferred to other stations of the Centrex by means of Call Transfer feature. This feature includes up to 4 extension bells to enable the station users to hear the incoming trunk signals. (N)

Effective date POSTPONED
to ~~Nov. 15, 1971~~ Dec. 5, 1971
See Supplement No. ~~48~~ 56

(2) **Centrex II—All Calls**

Centrex II—All Calls extends the first three features in (1) above to outgoing exchange calls and calls between stations of the Centrex. Only one of the stations involved in the use of these features, may be connected over an exchange line or a tie line outside the Centrex system.

The following optional features may be furnished in connection with Centrex II service:

Speed Calling
Call Forwarding
Call Pick-up and Hold

Speed Calling enables a station user to reach frequently called telephone numbers by use of an abbreviated code.

Call Forwarding enables a station user to direct incoming calls so that they may be answered at another station of the Centrex.

Call Pick-up enables a station user to answer an incoming call directed to certain other stations by dialing a code. Call Hold enables a station user to hold the call by flashing the switchhook and dialing a code, freeing the station to originate a call or answer an incoming call to another line by means of Call Pick-up.

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SUPP. [illegible]
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EFFECTIVE [illegible] PAGE

E1644
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

I have compared the preceding [illegible], with the original New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26E, First Revised Page 26E, Third Revised Page 26E, Fourth Revised Page 26E, Fifth Revised Page 26E, Seventh Revised Page 26E, Eighth Revised Page 26E

on file in this office, and I do ***HEREBY CERTIFY*** *the same to be a correct transcript therefrom and of the whole thereof.*

WITNESS *my hand and the seal of the Public Service Commission, at the city of Albany, this* 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1645
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

AUG 3 1971

I. CENTREX SERVICE (Cont'd)

5. Centrex II Service (Cont'd)

c. Regulations

(1) The monthly rate for Centrex II-Incoming Calls and Centrex II-All Calls stations applies for all primary stations of the system, except stations subject to the restricted station rate.

(2) The minimum monthly charge for either type of Centrex II service is that for 100 primary non-restricted stations. Dormitory lines of the same type as the lines furnished for administrative use (flat or message) and restricted lines are counted toward the minimum and charged for at the full Centrex II monthly rates.

(3) Centrex II optional features are not offered for stations subject to the restricted station rate.

(4) When a customer subscribes to Centrex II service without an attendant switchboard or console the "trunk answer from any station" feature will not be provided.

(5) Centrex II service and Centrex II optional features are furnished subject to availability of facilities.

(6) All other rates and regulations for Centrex-CO service apply for the Centrex II and Centrex II optional feature offerings.

(N)

d. Rates and Charges	Monthly Rate First 700 Lines	Monthly Rate Over 700 Lines	*Connection Charge
(1) Primary non-restricted stations, each			
Stations associated with			
Centrex II-Incoming Calls	$2.00#	$1.00#	$30.00
Centrex II-All Calls	2.25#	1.25#	30.00
(2) Primary restricted stations, each	Rates and charges shown in I.3.c.(3) preceding		
(3) Bridged stations, each			
Centrex Dormitory stations	Rates and charges shown in I.4.c.(1)b. and (2)b. preceding		
Other Centrex stations	Rates and charges shown in I.3.c.(4) preceding		

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Sept 10, 1972

# In addition, the rates specified in I.3.c.(1) or I.4.c.(1) as appropriate, apply for each station.

* Where the following services convert to Centrex II Service the following connection charges apply provided the stations are not moved or substituted. The charge includes bridged stations and supplemental station equipment.

PBX system (manual or dial), Centralized Switching Service or Dial Communications Service System,	each station or primary station	$20.00
Centrex-CO or CU, each primary station		5.00
Centrex II-SB		None

Effective date POSTPONED
to ~~Nov 15, 1971~~ Dec 15, 1971
See Supplement No. ~~48~~ 50

Issued August 5, 1971.
Effective October 1, 1971.
By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1646
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

5. Centrex II Service (Cont'd)

c. Regulations

(1) The monthly rate for Centrex II-Incoming Calls and Centrex II-All Calls stations applies for all primary stations of the system, except stations subject to the restricted station rate.

(2) The minimum monthly charge for either type of Centrex II service is that for 100 primary non-restricted stations. (D)

(3) Centrex II optional features are not offered for stations subject to the restricted station rate.

(4) When a customer subscribes to Centrex II service without an attendant switchboard or console the "trunk answer from any station" feature will not be provided.

(5) Centrex II service and Centrex II optional features are furnished subject to availability of facilities.

(6) All other rates and regulations for Centrex-CO service apply for the Centrex II and Centrex II optional feature offerings.

d. Rates and Charges	Monthly Rate First 700 Lines	Monthly Rate Over 700 Lines	*Connection Charge	
(1) Primary non-restricted stations, each				
Stations associated with				
Centrex II-Incoming Calls	$2.00#	$1.00#	$30.00	
Centrex II-All Calls	2.25#	1.25#	30.00	
(2) Primary restricted stations, each	Rates and charges shown in I.3.c.(3) preceding			
(3) Bridged stations, each	Rates and charges shown in I.3.c.(4) preceding			(T)
				(D)

# In addition, the rates specified in I.3.c.(1) or I.4.c.(1) as appropriate, apply for each station.

* Where the following services convert to Centrex II Service the following connection charges apply provided the stations are not moved or substituted. The charge includes bridged stations and supplemental station equipment.

PBX system (manual or dial), Centralized Switching Service or Dial Communications Service System,	each station or primary station	$20.00
Centrex-CO or CU, each primary station		5.00
Centrex II-SB		None

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SUPP ___ NO. ___
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E1647
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

I have compared the preceding copy with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26F,
Second Revised Page 26F

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this
2nd *day of* May
one thousand nine hundred Seventy-Seven

Samuel R. Madison
Secretary.

E1648
Exhibit 271

AUG 9 1971

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

5. Centrex II Service (Cont'd)

d. Rates and Charges (Cont'd)

(4) Centrex II Optional Features
(Available only with Centrex II Service)

	Monthly Rate	Connection Chargeø
Call Forwarding, per line equipped	$ .50	$5.00
Call Pick-up and Hold, per line equipped	1.75	
Speed Calling-Individual (6 number list), per line equipped	1.00	
Speed Calling-Group (30 number list), each 30 number Group List or fraction thereof	3.00	
per line equipped for one or two Speed Calling Group Lists	.25	

ø Applies only when one or more features are installed subsequent to the connection of the associated station.

(5) Changes subsequent to initial installation (N)

Centrex II bridged station changed to Centrex II primary station, with or without Touch-Tone Calling or optional features	$20.00
Centrex II primary station changed to Centrex II bridged station	20.00
Centrex II-Incoming Calls system changed to Centrex II-All Calls system, each primary station	10.00
Centrex II-All Calls system changed to Centrex II-Incoming Calls system, each primary station	Rewire charges specified in Section 15 of this Tariff
Changes, additions or deletions of telephone numbers in Speed Calling lists, except where the number has been changed at the initiative of the Telephone Company serving the Speed Calling number, per order	5.00
Changes, additions or deletions of telephone numbers in Call Pick-up groups, per order	5.00

SUPERSEDED - CANCELLED
EFFECTIVE

Effective date POSTPONED
to ~~Nov. 15, 1971~~ Dec 15, 1971
See Supplement No. ~~48~~ 50

Issued August 5, 1971.
Effective October 1, 1971.
By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1649
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

I have compared the preceding copy with the original New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26G, First Revised Page 26G, Second Revised Page 26G, Fourth Revised Page 26G, Fifth Revised Page 26G

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1650
Exhibit 271

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

6. Centrex II Service—Small Business

a. General

Centrex II Service for Small Business (Centrex II-SB) consists of control and switching equipment on Telephone Company premises, connected by a maximum of 99 lines to stations on the subscriber's premises. The service includes one free directory listing. TOUCH-TONE Calling, color telephones and the following specified features as defined in Paragraph I.5.b.(1) preceding:

Call Transfer—Individual
Consultation Hold
Add-on

The service permits stations connected to the control and switching equipment to dial each other and to dial outgoing calls directly. Incoming calls may be dialed directly to any station; incoming calls to the main listed number for the service are connected to a station and then completed to the desired party by the operation of the call transfer feature. (N)

The service is furnished subject to the availability of facilities.

b. Regulations

(1) A switchboard or attendant's console and Supplemental PBX Systems associated with Centrex service are not furnished with Centrex II—SB Service.

(2) The service is furnished on a message rate basis only.

(3) The subscriber may be furnished rotary dial service in lieu of TOUCH-TONE service at the same rates provided in c. following.

(4) The Call Transfer—Individual, Consultation Hold and Add-on features are provided on incoming calls. Where the available facilities permit, these features may be provided on all calls.

(5) All other rates and regulations for Centrex-CO Service apply to Centrex II-SB Service.

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Effective date POSTPONED
to ~~Nov 15, 1971~~ Dec 15, 1971
See Supplement No. ~~48~~ 50

Issued August 5, 1971.
Effective October 1, 1971.
By Raymond F. Scully, General Attorney,
140 West Street, New York, N. Y. 10007

E1651
Exhibit 271

Form 50.

State of New York
Public Service Commission } ss.:

I have compared the preceding copy with the original
New York Telephone Co., P.S.C. No. 800 - Section 4 - Original Page 26H, First Revised Page 26H, Third Revised Page 26H, Fourth Revised Page 26H, Fifth Revised Page 26H

on file in this office, and I do HEREBY CERTIFY the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and the seal of the Public Service Commission, at the city of Albany, this 2nd *day of* May *one thousand nine hundred* Seventy-Seven

Samuel R. Madison
Secretary.

E1652
Exhibit 271

P. S. C. No. 800—Telephone

New York Telephone Company

Section 4
Original Page 26H

AUG 9 1971

PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

6. Centrex II Service—Small Business (Cont'd)

c. Rates and charges

	Monthly Rate	Connection Charge*
(1) Common Equipment	$70.00	None
(2) Primary non-restricted or restricted stations, each	13.20	$30.00
(3) Bridged stations, each	Rates and charges specified in B.4 for PBX message rate stations.	
(4) Centrex II optional features	Rates and charges specified in I.5.d. for Centrex II service	

*Where the following services convert to Centrex II-SB Service the following connection charges apply provided the stations are not moved or substituted. The charge includes bridged stations and supplemental station equipment. (N)

Individual or auxiliary lines or PBX stations	$30.00
Centrex-CO or CU	5.00
Centrex II	None

(5) Changes subsequent to initial installation

(a) Centrex II-SB bridged station to Centrex II-SB primary station or vice versa	$20.00
(b) Change of station from rotary dial to TOUCH-TONE or vice versa	Substitution charge for business telephones as specified in Section 15.
(c) Centrex II-SB station to Centrex-CO or CU station	Rewire charge for business telephones as specified in Section 15.

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Effective date POSTPONED
to ~~Nov 15, 1971~~ Dec 15, 197
See Supplement No. ~~48~~ 50

Issued August 5, 1971.

Effective October 1, 1971.

By Raymond F. Scully, General Attorney,
140 West Street, New York, N.Y. 10007

E1653
Exhibit 271

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PRIVATE BRANCH EXCHANGE SERVICE

I. CENTREX SERVICE (Cont'd)

6. Centrex II Service—Small Business (Cont'd)

(c) Rates and Charges

(1) Monthly Rates

(a) Common Equipment	$70.00	(T)
(b) Primary non-restricted stations, each		
Centrex Intercommunication Charge	11.05	(C)
Centrex Exchange Access Charge	2.15	
(c) Primary restricted stations, each	13.20	
(d) Bridged stations, each	Rates specified in B.4 for PBX message rate stations.	
(e) Centrex II optional features	Rates specified in I.5.d. for Centrex II service.	(T)

(2) Connection Charges*

Common Equipment	None
Primary stations, each	$30.00
Bridged stations, each	25.00
Centrex II optional features	Charges specified in I.5.d. for Centrex II service.

*Where the following services convert to Centrex II-SB Service the following connection charges apply provided the stations are not moved or substituted. The charge includes bridged stations and supplemental station equipment.

Individual or auxiliary lines or PBX stations	$30.00
Centrex-CO or CU	5.00
Centrex II	None

(3) Changes subsequent to initial installation (T)

(a) Centrex II-SB bridged station to Centrex II-SB primary station or vice versa	$20.00
(b) Change of station from rotary dial to TOUCH-TONE or vice versa	Substitution charge for business telephones as specified in Section 15.
(c) Centrex II-SB station to Centrex-CO or CU station	Rewire charges for business telephones as specified in Section 15.

SUPERSEDED - CANCELLED
BY P.S.C. NY 800-1974
SUPP 2
LEAF 27
REVISED SHEET
PAGE
EFFECTIVE

Issued June 15, 1972. Effective August 1, 1972.

By Raymond F. Scully, General Attorney.
140 West Street, New York, N.Y. 10007

E1654
EXHIBIT B
Plaintiffs' Amended Responses and Objections
to Request for Admissions

USA 33a - 475
(ED. 4-23-71)
Deft
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
B
FPI-MI—9-24-75-50M-4417

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---x

DUPONT GLORE FORGAN INCORPORATED, et al.,

Plaintiffs,

- against -

AMERICAN TELEPHONE AND TELEGRAPH COMPANY, et al.,

Defendants and Third-Party Plaintiffs,

- against -

UNITED STATES OF AMERICA,

Third-Party Defendant.

---x

73 Civ. 2447
(EW)

Plaintiffs' Amended Responses and Objections to Request for Admissions

Plaintiffs make the following amended responses and objections to the Request for Admissions of the Defendants and Third-Party Plaintiffs ("the defendants"), dated November 19, 1976, for the purposes of this action only:

General Objection and Statement

Plaintiffs object to any request for admission concerning or relating to events or facts occurring in a time period subsequent to December 31, 1972 as irrelevant and overbroad. All responses set forth below concern, and are restricted to, the period January 1, 1961 through December 31, 1972 (the "relevant period").

Responses and Objections

Request for admission 1

"Defendant American Telephone and Telegraph Company ("AT&T") does not render Centrex service."

E1655
Exhibit B

Response to request 1

Plaintiffs deny the matter set forth in such request, except admit that defendant AT&T did not directly furnish Centrex service to any of the members of the plaintiff class.

Request for admission 2

> "Each of the Defendants and Third-Party Plaintiffs other than AT&T (hereinafter the "Defendant Operating Companies") renders Centrex service within its service area."

Response to request 2

Plaintiffs admit that each of the Defendant Operating Companies furnished Centrex service within its service area to members of the plaintiff class, beginning at different times during the relevant period.

Request for admission 3

> "Each of the Defendant Operating Companies, within its own service area, is the only telephone company which is authorized under the applicable state laws to render Centrex service."

Response to request 3

Plaintiffs admit the matter set forth in such request.

Request for admission 4

> "The monthly charges of each of the Defendant Operating Companies for unrestricted Centrex stations (hereinafter "Centrex station charges") are charges for telephone exchange service within the meaning of Section 221(b) of the Communications Act of 1934, 48 Stat. 1080 (1934), as amended, 47 U.S.C. § 221(b)."

Response to request 4

Plaintiffs deny the matter set forth in such request, except admit that the amounts received by each of the defendant operating companies as compensation for the use of unrestricted Centrex stations are charges for telephone exchange service within the meaning of Section 221(b) of the Communications Act of 1934.

Request for admission 5

> "Except where a Centrex system is located in a telephone exchange which embraces parts of more than one state, the Centrex station charges of each of the Defendant Operating Companies are charges for intrastate communication service, and are not charges for interstate communication service, within the meaning of Section 2(b) of the Communications Act of 1934, 48 Stat. 1064 (1934), as amended, 47 U.S.C. § 152(b)."

Response to request 5

Plaintiffs deny the matter set forth in such request, except admit that except where a Centrex system is located in a telephone exchange which embraces parts of more than one state, the amounts received by each of the defendant operating companies as compensation for the use of unrestricted Centrex stations are charges for intrastate communication service, and are not charges for interstate communication service, within the meaning of Section 2(b) of the Communications Act of 1934.

Request for admission 6

> "The Centrex station charges of each of the Defendant Operating Companies are subject to regulation by state or local regulatory authorities pursuant to the applicable state laws."

Response to request 6

Plaintiffs deny the matter set forth in such request, except admit that the amounts received by each of the defendant operating companies as compensation for the use of unrestricted Centrex stations are subject to regulation by state or local regulatory authorities pursuant to applicable state laws. Plaintiffs do not admit the extent, if any, to which, and the times, if any, when, state or local regulatory authorities have affirmatively approved such Centrex station charges.

Request for admission 7

> "The Centrex station charges of the Defendant Operating Companies are not subject to regulation by the Federal Communications Commission."

Response to request 7

Plaintiffs deny the matter set forth in such request, except admit that the amounts received by each of the defendant operating companies as compensation for the use of unrestricted Centrex stations are not subject to regulation under the Communications Act of 1934.

Request for admission 8

> "All charges of each of the Defendant Operating Companies for Centrex service are required by the applicable state laws to be set forth in tariffs which have been filed with state or local regulatory authorities and which have become effective pursuant to the applicable state laws."

Response to request 8

Plaintiffs deny the matters set forth in such request, except admit that charges of each of the Defendant Operating Companies for Centrex service were set forth in tariffs which, pursuant to applicable state laws, were filed with state or local regulatory authorities and became effective. Plaintiffs additionally deny that an allocation of Centrex station charges for exchange access and for intercommunication was required to be set forth in such tariffs.

Request for admission 9

> "Each of the Defendant Operating Companies complied in every respect with all tariffs relating to the Centrex station charges of such Defendant Operating Company."

Response to request 9

Although plaintiffs do not know information nor have information readily obtainable which is sufficient to enable them to determine the truth of request 9, plaintiffs will not contest the matter set forth in such request.

Request for admission 10

> "No person at any time requested any state or local regulatory authority to direct that the Centrex tariffs of any Defendant Operating Company other than Northwestern Bell Telephone Company be amended to establish separate Centrex station charges for exchange access and for intercommunication."

Response to request 10

Plaintiffs will not contest that no person at any time requested any state or local regulatory authority to direct that the Centrex tariffs of any Defendant Operating Company other than Northwestern Bell Telephone Company and Pacific Telephone and Telegraph Company be amended to establish separate Centrex station charges for exchange access and for intercommunication.

Request for admission 11

> "No person requested any state or local regulatory authority to direct that the Centrex tariffs of Northwestern Bell Telephone Company be amended to establish separate Centrex station charges for exchange access and for intercommunication until after Northwestern Bell Telephone Company had determined to file revised tariffs establishing such separate charges."

Response to request 11

Plaintiffs will not contest that no person requested any state or local regulatory authority to direct that the Centrex tariffs of Northwestern Bell Telephone Company be so amended until after AT&T's September 27, 1971 letter to the Defendant Operating Companies relating to the separation of Centrex station charges for exchange access and for intercommunication.

Request for admission 12

> "The answers of each of the Defendant Operating Companies other than New York Telephone Company, Southern New England Telephone Company, and Southwestern Bell Telephone Company to Interrogatory 7(a) and (c) of Plaintiffs' Second Wave Interrogatories, First Set are accurate in all respects."

Response to request 12

Plaintiffs admit that the facts contained in such answers (excluding any statement of objection) are accurate.

Request for admission 13

> "The answers to be made on or before November 30, 1976 by each of the Defendant Operating Companies

> other than New York Telephone Company, Southern New England Telephone Company, and Southwestern Bell Telephone Company to Interrogatory 6(b)(v) of Plaintiffs' Second Wave Interrogatories, First Set are accurate in all respects."

Response to request 13

Plaintiffs admit that the facts contained in such answers (excluding any statement of objection) are accurate.

Request for admission 14

> "The answers to be made on or before November 30, 1976 by New York Telephone Company, Southern New England Telephone Company, and Southwestern Bell Telephone Company to Interrogatory 2(b)(iii) of Plaintiffs' Second Wave Interrogatories, Fourth Set are accurate in all respects."

Response to request 14

Plaintiffs admit that the facts contained in such answers (excluding any statement of objection) are accurate.

Request for admission 15

> "None of the Defendant Operating Companies had a separate charge in any of its tariffs for any private communication service covered by the Centrex station charge until revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were filed and became effective."

Response to request 15

Plaintiffs deny the matters set forth in such request, except admit that except with respect to restricted Centrex service, none of the Defendant Operating Companies had, during the relevant period, a separate charge in any of its tariffs for any private communication service covered by the

Centrex station charge until revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were filed and became effective.

Request for admission 16

> "None of the Defendant Operating Companies had a separate charge in any of its books and records for any private communication service covered by the Centrex station charge until revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were filed and became effective."

Response to request 16

Plaintiffs deny the matters set forth in such request, except admit that except with respect to restricted Centrex service, none of the Defendant Operating Companies had, during the relevant period, a separate charge in any of its books and records for any private communication service covered by the Centrex station charge until revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were filed and became effective.

Request for admission 17

> "None of the Defendant Operating Companies set forth covered by the Centrex station charge in any statements or other documents furnished to customers until revised tariffs establishing separate Centrex station charges for exchange establishing separate Centrex station charges for exchange access and for intercommunication were filed and became effective."

Response to request 17

Plaintiffs deny the matters set forth in such request, except admit that except with respect to restricted

E1662
Exhibit B

Centrex service, none of the Defendant Operating Companies set forth, during the relevant period, a separate charge for any communication service covered by the Centrex station charge in any statements or other documents furnished to customers until revised tariffs establishing separate Centrex charges for exchange access and for intercommunication were filed and became effective.

Request for admission 18

> "All of the Federal communications excise taxes at issue in the present case were duly and timely paid to the United States by the Defendant Operating Company which collected such taxes."

Response to request 18

Plaintiffs admit the matter set [illegible] in such request.

Request for admission 19

> "All of the Claims for Refund, copies of which are to be made available for inspection and copying on or before November 29, 1976 pursuant to Interrogatory 1 of Third-Party Defendant's Interrogatories of Defendants, were duly filed with the Internal Revenue Service at the offices and on the dates stamped on such copies."

Response to request 19

Plaintiffs admit the matter set forth in such request.

Request for admission 20

> "None of the Defendant Operating Companies other than New York Telephone Company offered or provided any telecommunications service (including Centrex service) in New York."

Response to request 20

Plaintiffs deny the matter set forth in such request, except admit that none of the Defendant Operating Companies other than New York Telephone Company directly offered or provided any local telecommunications service (including Centrex service) to subscribers located in the State of New York during the relevant period.

Request for admission 21

> "The answers of each of the Defendant Operating Companies other than The Chesapeake and Potomac Telephone Company, New England Telephone and Telegraph Company, New York Telephone Company, Southern Bell Telephone and Telegraph Company, Southern New England Telephone Company, and Southwestern Bell Telephone Company to Interrogatory 18(b)(i), (ii), (iii), and (v) of Plaintiffs' Second Wave Interrogatories, First Set are accurate in all respects."

Response to request 21

Plaintiffs admit that the facts contained in such answers (excluding any statement of objection) are accurate.

Request for admission 22

> "The answers of Southern New England Telephone Company and Southwestern Bell Telephone Company to Interrogatory 8(b)(i), (ii), (iii), and (v) of Plaintiffs' Second Wave Interrogatories, Fourth Set are accurate in all respects."

E1664
Exhibit B

Response to request 22

Plaintiffs admit that the facts contained in such answers (excluding any statement of objection) are accurate.

Dated: New York, New York
December 30, 1976

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E1665
EXHIBIT C
Interrogatory Answers Describing the Preparation, Filing,
and Implementation of Revised Tariffs Establishing
Separate Centrex Station Charges for Exchange
Access and for Intercommunication

duPont Glore Forgan Incorporated, et al.
v.
American Telephone and Telegraph Company, et al.

73 Civ. 2447 (EW)

Interrogatory Answers Describing the Preparation,
Filing, and Implementation of Revised Tariffs
Establishing Separate Centrex Station Charges
for Exchange Access and for Intercommunication

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EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
C

FPI-MI—9-24-75-50M-4417

E1666
Exhibit C

duPont Glore Forgan Incorporated, et al.
v.
American Telephone and Telegraph Company, et al.

73 Civ. 2447 (EW)

Interrogatory Answers Describing the Preparation, Filing, and Implementation of Revised Tariffs Establishing Separate Centrex Station Charges for Exchange Access and for Intercommunication

Each of the defendant operating companies served and filed an interrogatory answer describing its preparation and filing of revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication.* In addition, each of the defendant operating companies other than New York Telephone Company, Southern New England Telephone Company, and Southwestern Bell Telephone Company, in response to Interrogatory 7(a) and (c) of Plaintiffs' Second Wave Interrogatories, First Set, described its implementation of revised tariffs establishing separate Centrex station charges.

With respect to all of these interrogatory answers, plaintiffs admitted in their amended responses dated December 30, 1976 to Requests 12, 13, and 14 of defendants' Request for Admissions that "the facts contained in such answers (excluding any statement of objection) are accurate."** For the convenience of the Court, all of these interrogatory answers are reproduced in this binder.

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* In the case of New York Telephone Company, Southern New England Telephone Company, and Southwestern Bell Telephone Company, such answer was made in response to Interrogatory 2(b)(iii) of Plaintiff's Second Wave Interrogatories, Fourth Set; in the case of the remaining defendant operating companies, such answer was made in response to Interrogatory 6(b)(v) of Plaintiffs' Second Wave Interrogatories, First Set.

** In fact, none of the interrogatory answers in question contains any statement of objection.

E1667
Exhibit C

The Bell Telephone Company of Pennsylvania

> "6. (a) During the period January 1, 1961 to December 31, 197[illegible], did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Bell of Pa. answers these questions as follows:

(a) (1) The Rate and Tariff group designed a form that was sent to field Marketing forces to obtain complete data by customer on Centrex stations and other equipment in order to analyze and develop a possible separation of the taxable and non-taxable portion of the rates for Centrex service.

(2) These accounts were then manually surveyed based

on the above requested data that were returned from the Marketing field forces.

(3) Those accounts were compared with the accounts involving PBX Systems with similar service requirements. As a result of that comparison, rates were developed by the establishment of rate components that separately identified the "Exchange Access" and "Private Communications Service" portions of Centrex Service.

(4) Meetings were conducted with Comptrollers, Law, Tax and Services personnel to determine the following: (a) Comptrollers - Ascertain that a feasible billing method could be programmed; (b) Services - Ascertain that a feasible service order and bill format procedure could be developed; and (c) Law & Tax - General review of foregoing plans from a legal viewpoint.

(5) Appropriate tariffs were prepared, approved, and filed with the Pennsylvania Public Utility Commission.

(b) An estimated 1,300 hours were required to perform the various procedures set forth in (a)(1) through (5) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility

for effecting such a separation.

. . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the Service Representative's Handbook and the Accounting Computer files were changed to reflect the tariff changes for exchange access and for intercommunication.

(c) (i) Comptrollers Department

After notification from the Rate and Tariffs Group that Bell of Pennsylvania would seek to amend the Centrex tariff, Systems Analyst-Methods met with members of the Rate and Tariff Group to get a comprehensive understanding of the changes being made. A determination was made as to what changes would be required to implement the tariff revisions. The Systems Analyst-Methods forwarded this information to the Systems Analyst-Machine Design for detailed design of logic changes required for the computer programs. The Systems Analyst-Machine Design provided this data to a programmer to implement the codes in the computer files to effect the tariff changes. The changes to the program were tested by the programmer and verified by the System Analyst-Methods and Systems Analyst-Machine Design. Documentation was sent to the Revenue Accounting Center explaining the tariff revisions and effect on customer billing. The program was implemented on the effective data of the tariff with verification from the Revenue Accounting Centers.

Services Department

After notification from the Rates and Tariffs Group that Bell of Pennsylvania would seek to amend the Centrex tariff, members of Business Office Methods Group met with members of the Rates and Tariffs Group to obtain a comprehensive understanding of the amendments sought. The Business Office

Handbook was altered to reflect the Centrex changes and a memorandum was sent out to the Business Offices advising the representatives in these offices of the Centrex changes, and the effect on Centrex customers.

Marketing Training

The Marketing Training Center was notified of the tariff changes and Centrex training was altered to reflect the changes in the Centrex tariff.

(ii) An estimated 525 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(1).

(iii)

Name	Title	Address
C. P. Colwell, III	Accounting Supv.- Customer Records & Billing	One Parkway Philadelphia, Pa.
A. H. Napier, Jr.	Services Supv.- Business Office Methods	One Parkway Philadelphia, Pa.
M. F. Conaboy	Marketing Supv.- Training	325 Chestnut Street Philadelphia, Pa.

Exhibit C

The Chesapeake and Potomac Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). C&P answers these questions as follows:

(a) The existing Centrex rate schedule was examined to determine what the central office trunk increment of the main station rate should be in light of (1) changes in PBX trunk rates and main station rates, and (2) changes in the Centrex tapered station schedule (e.g., the first 50 stations, the next 250 stations, the next 600 stations, and all stations over 900) since the original Centrex offering was filed in

1961. New rate schedules had to be developed for Schedule A Centrex, both primary and secondary locations. Other components of the Centrex offering were examined, and the remaining items of Centrex service (attendant positions, bridged or fully restricted stations, Dormitory stations and miscellaneous equipment) were reviewed to be sure that no central office trunk element had been overlooked. The intercommunication portion of the schedule was also reviewed. Further steps involved in the preparation and filing of the revised Centrex tariffs were the preparation and issuance of Tariff and Administrative Instructions, the preparation of an explanation of the revised tariffs to be given to the local regulatory commission, and the filing of the revised tariffs.

(b) Approximately 1,200 hours were spent by the C&P Companies in carrying out the steps outlined in (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After tariffs establishing separate

Centrex station charges for exchange access and for intercommunication became effective, The Chesapeake and Potomac Telephone Company used position practices issued by the Comptrollers Headquarters Group Staff to reflect the tariff charges for exchange access and for intercommunication. These documents are available for inspection and copying pursuant to Rule 33(c) of the Federal Rules of Civil Procedure. These documents bear numbers 24916-24980.

(c)

(i) In advance of the date the tariff providing for separate Centrex station charges for exchange access and intercommunication was effective the Group Headquarters Comptrollers Staff issued instruction ABF 410 to enable The Chesapeake and Potomac Telephone Company to manually identify and separate the exchange access charges subject to the Federal communications excise tax from the intercommunication charges which are not taxable. Using this methodology The Chesapeake and Potomac Telephone Company manually computed the tax on all bills rendered to Centrex customers for a period of approximately nine months. Thereafter the Centrex billing was restructured by computer programming and the accounts master file data processing tapes were updated to internally separate and uniquely summarize taxable and non-taxable charges for monthly billing. All billing records were changed through a computer run using this modified program. Centrex accounts not in the automated billing system were restructed separately and manually. After these changes were accomplished all billing records were verified for accuracy.

(ii) An estimated 2,800 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

E1674
Exhibit C

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
J. M. Blackford	Unit Supervisor	8757 Georgia Avenue Silver Spring, Md. 20904
P. J. Knapp	Data Processing Manager	100 New England Ave. Piscataway, N.J.
R. E. Miller	District Data Processing Mgr.-CRB	1710 H. Street, N.W. Washington D.C. 20006
E. T. Holt	Staff Supervisor	8757 Georgia Avenue Silver Spring, Md. 20904
F. M. Gourley	Data Systems Mgr.	8757 Georgia Avenue Silver Spring, Md. 20904
J. N. Hess	Data Systems Mgr.	8757 George Avenue Silver Spring, Md. 20904
D. W. Swan, Jr.	Data Systems Mgr. (former)	8757 Georgia Avenue Silver Spring, Md. 20904
	Staff Supervisor (present)	719 13th Street, N.W. Washington, D.C. 20001
D. C. LaPointe	Data Systems Mgr.	8757 Georgia Avenue Silver Spring, Md. 20904
C. Miller, Jr.	Data Systems Mgr.	8757 Georgia Avenue Silver Spring, Md. 20904
M. H. Turner	Staff Associate (former)	8757 Georgia Avenue Silver Spring, Md. 20904
	Data Systems Mgr. (present)	FDC II
W. H. Stephenson	Staff Associate	8757 Georgia Avenue Silver Spring, Md. 20904

The Chesapeake and Potomac Telephone Company
of Maryland

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). C&P of Maryland answers these questions as follows:

(a) The existing Centrex rate schedule was examined to determine what the central office trunk increment of the main station rate should be in light of (1) changes in PBX trunk rates and main station rates, and (2) changes in the Centrex tapered station schedule (e.g., the first 50 stations, the next 250 stations, the next 600 stations, and all stations over 900) since the original Centrex offering was filed in 1961. New rate schedules had to be developed for Centrex I and II and Suburban Centrex, both primary and secondary locations, and for flat rate over 50,000 main stations and under 50,000 main stations, and message rate service. Other components of the Centrex offering were examined, and the remaining items of Centrex service (attendant positions, bridged or fully restricted stations, Dormitory stations and miscellaneous equipment) were reviewed to be sure that no central office trunk element had been overlooked. The intercommunication portion of the schedule was also reviewed. Further steps involved in the preparation and filing of the revised Centrex tariffs were the preparation and issuance of Tariff and Administrative Instructions, the preparation of an explanation of the revised tariff to be given to the local regulatory commission, and the filing of the revised tariffs.

(b) Approximately 1,200 hours were spent by the C&P Companies in carrying out the steps outlined in (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility

for effecting such a separation.

. . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of The Chesapeake and Potomac Telephone Company of Maryland were changed to reflect the tariff charges for exchange access and for intercommunication: customer tape billing files, customer billing records (accounts information records, accounts receivable records, customer bills), related reference material, manual procedures and training practices.

(c) (i) After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the Comptrollers Department Programming Staff developed unique procedures to identify and separate taxable and non-taxable charges on Centrex services. Being so identified, dollar amounts for items considered exchange access stations were updated with an indicator so that the item could have the Federal communications tax applied. Likewise, intercommunication items were indicated as non-taxable for Federal communications tax. Through December, 1972 clerical personnel revised all customer records manually to reflect proper Federal communications tax. In December, 1972 unique programs changed master records to reflect proper taxing.

The records changed are the Master Records used to create all customer billing and subsequent permanent records. From that point on, all existing Centrex customers were taxed according to the existing instructions. The unique programming was added to the first programs in the billing series as that any new Centrex customers would be properly taxed. Subsequent to the changes, customer billing records were verified for accuracy.

Two Centrex customers not handled in normal billing were changed by manually keypunching new master cards effecting the same change as above. Additional clerical training was required to institute the new taxing procedure.

(ii) An estimated 1350 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individual with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) was:

Name	Title	Address
E. F. Ebert	Division Data Processing Manager	Shawan & York Roads Cockeysville, Md. 21030

Exhibit C

The Chesapeake and Potomac Telephone Company of Virginia

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). C&P of Virginia answers these questions as follows:

(a) The existing Centrex rate schedule was examined to determine what the central office trunk increment of the main station rate should be in light of (1) changes in PBX and main station rates, and (2) changes in the Centrex tapered station schedule (e.g., the first 50 stations, the next 150 stations, the next 800 stations, and all stations over 1,000) since the original Centrex offering was filed in 1961. New rate schedules had to be developed for Centrex I and II and Suburban Centrex, both primary and secondary locations, and for flat and message rate service. Other components of the Centrex offering were examined, and the remaining items of Centrex service (attendant positions, bridged or fully restricted stations, Dormitory stations and miscellaneous equipment) were reviewed to be sure that no central office trunk element had been overlooked. The intercommunication portion of the schedule was also reviewed. Further steps involved in the preparation and filing of the revised Centrex tariffs were the preparation and issuance of Tariff and Administrative Instructions, the preparation of an explanation of the revised tariffs to be given to the local regulatory commission, and the filing of the revised tariffs.

(b) Approximately 1,200 hours were spent by the C&P Companies in carrying out the steps outlined in (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility

for effecting such a separation.

. . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the various records of The Chesapeake and Potomac Telephone Company of Virginia were changed to reflect the tariff charges for exchange access and for intercommunication.

(c) (i) Prior to the effective date of the tariffs of The Chesapeake and Potomac Telephone Company of Virginia which established separate Centrex station charges for exchange access and intercommunication the Group Headquarters Comptrollers Staff issued an instruction containing methods by which this Company was able to manually identify and separate the charges for exchange access, which remained subject to the Federal communications excise tax, from non-taxable charges for intercommunication. This manual methodology was used for a period of approximately nine months. Thereafter the billing system was modified by a change in computer programming and the Accounts Master File data processing tapes were updated to internally separate and uniquely summarize the taxable and non-taxable charges for monthly Centrex billing. The modified programs were run and the computer billing records changed accordingly. Centrex accounts not included in the automated billing system were corrected manually. All billing records were subsequently verified for accuracy.

(ii) An estimated 3000 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to

E1682
Exhibit C

Interrogatory 7(c)(i) were:

Name	Title	Address
N. P. Corpening	Unit Supervisor	3011 Hungary Springs Rd. Richmond, Virginia 23228
V. T. Bartley, Jr.	Data Processing Mgr.	3011 Hungary Springs Rd. Richmond, Virginia 23228
H. T. Shreve	District Data Processing Mgr.	3011 Hungary Springs Rd. Richmond, Virginia 23228

Exhibit C

The Chesapeake and Potomac Telephone Company
of West Virginia

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> > (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). C&P of West Virginia answers these questions as follows:

(a) The existing Centrex rate schedule was examined to determine what the central office trunk increment of the main station rate should be in light of (1) changes in PBX trunk rates and main station rates, and (2) changes in the Centrex tapered station schedule (*e.g.*, the first 50 stations, the next 250 stations, the next 600 stations, and all stations over 900) since the original Centrex offering was filed in 1961. New rate schedules had to be developed for Centrex I and II, both primary and secondary locations. Other components of the Centrex offering were examined, and the remaining items of Centrex service (attendant positions, bridged or fully restricted stations, Dormitory stations and miscellaneous equipment) were reviewed to be sure that no central office trunk element had been overlooked. The intercommunication portion of the schedule was also reviewed. Further steps involved in the preparation and filing of the revised Centrex tariffs were the preparation and issuance of Tariff and Administrative Instructions, the preparation of an explanation of the revised tariffs to be given to the local regulatory commission, and the filing of the revised tariffs.

(b) Approximately 1,200 hours were spent by the C&P Companies in carrying out the steps outlined in (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of The Chesapeake and Potomac Telephone Company of West Virginia were changed to reflect the tariff charges for exchange access and for intercommunication: accounts master filed data processing tapes and associated outputs from said tapes (Account Information Records).

(c) (i) The Centrex billing methods of The Chesapeake and Potomac Telephone Company of West Virginia were changed primarily by computer programming with the accounts master file data processing tapes being updated to internally separate and uniquely summarize taxable charges for exchange access and the nontaxable charges for intercommunication. The computer billing files were then changed by a computer run. Centrex accounts that were not included in the automated billing system were modified manually. After all this was accomplished the billing records were verified for accuracy.

(ii) It is estimated that 900 man hours and 120 computer hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
Paul M. Peabody	District Data Processing Mgr.	1500 MacCorkle Ave.,S.E.
Karl Thompson	Data Processing Mgr.	1500 MacCorkle Ave.,S.E.
Gladys Thaxton	Unit Supervisor	1500 MacCorkle Ave.,S.E. Charleston, WV 25314

E1686
Exhibit C

Cincinnati Bell, Inc.

"6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?

(b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:

. . . .

(v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and

. . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Cincinnati Bell answers these questions as follows:

(a) The steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were as follows: (1) plan and discuss changes; (2) modify tariff pages; (3) type and proofread tariff pages; (4) prepare Commission applications and transmittal letters; (5) obtain required signatures and notary certification; and (6) print required copies of tariffs and mail to Commissions.

(b) The estimated total time required to carry out the steps described in (a) above was 80 hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the books and records of Cincinnati Bell were changed to reflect the tariff charges for exchange access and for intercommunication.

(c) (i) Cincinnati Bell could not locate documents describing the procedures by which the books and records of Cincinnati Bell were changed to reflect the tariffs which established separate Centrex station charges for exchange access and for intercommunication. The individuals with direct responsibility for such procedures are no longer employed by Cincinnati Bell.

(ii) Cincinnati Bell is unable to estimate

Exhibit C

the number of hours required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individual with supervisory responsibility for altering the books and records of Cincinnati Bell to reflect the tariffs which established separate Centrex station charges for exchange access and intercommunication was:

Name	Title	Address
A. T. Bonnick	Vice President and Comptroller	225 E. 4th St. Cincinnati, Ohio

The Diamond State Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Diamond State answers these questions as follows:

(a) (1) The Rate and Tariff group designed a form that was sent to field Marketing forces to obtain complete data by customer on Centrex stations and other equipment in order to analyze and develop a possible separation of the taxable and non-taxable portion of the rates for Centrex service.

(2) These accounts were then manually surveyed based on the above requested data that were returned from the

Marketing field forces.

(3) Those accounts were compared with the accounts involving PBX Systems with similar service requirements. As a result of that comparison, rates were developed by the establishment of rate components that separately identified the "Exchange Access" and "Private Communications Service" portions of Centrex Service.

(4) Meetings were conducted with Comptrollers, Law, Tax and Services personnel to determine the following: (a) Comptrollers - Ascertain that a feasible billing method could be programmed; (b) Services - Ascertain that a feasible service order and bill format procedure could be developed; and (c) Law & Tax - General review of foregoing plans from a legal viewpoint.

(5) Appropriate tariffs were prepared, approved and filed with the Delaware Public Service Commission.

(b) An estimated 145 hours were required to perform the various procedures set forth in (a)(1) through (5) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the Service Representative's Handbook and the Accounting Computer files were changed to reflect the tariff changes for exchange access and for intercommunication.

(c) (i) Comptrollers Department

After notification from the Rate and Tariffs Group that Diamond State would seek to amend the Centrex tariff, Systems Analyst-Methods met with members of the Rate and Tariff Group to get a comprehensive understanding of the changes being made. A determination was made as to what changes would be required to implement the tariff revisions. The Systems Analyst-Methods forwarded this information to the Systems Analyst-Machine Design for detailed design of logic changes required for the computer programs. The Systems Analyst-Machine Design provided this data to a programmer to implement the codes in the computer files to effect the tariff changes. The changes to the program were tested by the programmer and verified by the System Analyst-Methods and Systems Analyst-Machine Design. Documentation was sent to the Revenue Accounting Center explaining the tariff revisions and effect on customer billing. The program was implemented on the effective date of the tariff with verification from the Revenue Accounting Centers.

Services Department

After notification from the Rates and Tariff Group that Diamond State would seek to amend the Centrex tariff, members of Business Office Methods Group met with the Rates and Tariffs Group to obtain a comprehensive understanding of the changes sought to be made. No changes were required in Service Order Procedures. The Business Office Handbook was altered to

E1692
Exhibit C

reflect the Centrex changes and a memorandum was sent out to the Business Offices advising the representatives in these offices of the changes in the Centrex tariffs, and the effect on Centrex customers.

Marketing Training

The Marketing Training Center was notified of the tariff changes and Centrex training was altered to reflect the changes in the Centrex tariff.

(ii) An estimated 175 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii)

Name	Title	Address
C. P. Colwell, III	Accounting Supv.- Customer Records & Billing	One Parkway Philadelphia, Pa.
A. H. Napier, Jr.	Services Supv.- Business Office Methods	One Parkway Philadelphia, Pa.
M. F. Conaboy	Marketing Supv.- Training	325 Chestnut Street Philadelphia, Pa.

E1693
Exhibit C

Illinois Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Illinois Bell answers these questions as follows:

(a) The steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were as follows: preparation of rates; preparation of Master File for approval by officers of Illinois Bell; preparation of tariff pages; preparation and filing of advice letters to Illinois Commerce Commission and Indiana Public Service Commission; and transmittal, mailing, and distribution of tariffs.

(b) It is estimated that approximately 65 hours would have been required to carry out the steps described in response to (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of IBT were changed to reflect the tariff charges for exchange access and for intercommunication: billing records and customer service records.

(c) (i) The billing records for all Centrex customer accounts, as contained on IBT's computer system, were converted to the revised tariff rates under the restructured tariffs. The service order codes representing Centrex exchange access were identified as charges subject to Federal excise tax and a new service order code was created to represent Centrex intercommunication and identified as charges not subject to Federal excise tax.

(ii) An estimated 900 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) Aside from the individuals specified in IBT's Answers and Objections to Plaintiffs' First Wave Interrogatories, Second Set, Interrogatory 2(d), there were no other individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i).

E1696
Exhibit C

Indiana Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v) Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Indiana Bell answers these questions as follows:

(a) In order to appropriately restructure Centrex rates it was necessary to review the original station to trunk relationship for the service at its origin in 1961. The number of trunks indicated for systems of various station size was multiplied by the rate of a trunk in Indiana in 1961 and divided by the selected station breaks in the Centrex schedule (100, 500, 750, over 1500). This then yielded the revenue contribution for exchange access of the total rate. These rates were then carried through the rate case activity which had occurred since 1961 by applying approximately one half of any increase to each portion of the newly formed rate.

Upon determination of the appropriate schedules for exchange access and intercommunication, draft tariffs were prepared. Typing of tariffs followed with proofreading and preparation of a tariff filing package for internal approval and presentation to the Public Service Commission of Indiana.

(b) An estimated 1,400 hours were required to perform the tasks associated with preparing and filing the revised tariffs.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of Indiana Bell were changed to reflect the tariff charges for

exchange access and for intercommunication:

(1) Business Office Service Rep's handbook and Commercial Practice.

(2) USOC Codes.

(3) Business Office Service Rep's Training Material.

(4) Master Billing Tape.

(5) Customer Service Records.

(6) Centrex Rating Program.

(7) Customer Equipment Master File.

(c) (1) The following briefly describes the process used by Commercial to change records when a tariff is altered:

(1) Determination and development of methods to implement tariff change.

(2) Determination and identification of all appropriate USOC affected by the change.

(3) Coordination interdepartmental to establish new USOC codes or make changes in existing USOC codes including rates if appropriate.

(4) Preparation and distribution of appropriate new Service Record references.

(5) Updating the appropriate Management reference-USO & Commercial Practice.

(6) Preparation of Service Order or other training material including related job aids.

(7) Administration of Training to affected Business Office personnel - Managers, Supervisors, Service Representatives, Typists.

(8) Completion of code conversion if required.

(9) Updating of all ongoing training material to incorporate tariff revision.

The following briefly describes the process used by the Comptroller's Department to change records when a tariff is altered.

New USOC's and rates were changed on the data processing Customer Equipment Master file manually by the Comptrollers Operations group. The Comptrollers Staff provided the Operations group with the new USOC's and tax designations.

Exhibit C

Computer programs were changed to rate the Centrex Station activity from service orders and apply the proper tax designation on an ongoing basis. Programs were changed, tested and were ready for implementation by January 1, 1972.

At the time the first bills were rendered, following the effective date of the tariff change, new Customer Service Records were produced and furnished the Plant and Commercial Departments as well as the customers. The Customer Service Records reflected the split rates and new USOC codes with proper tax designations for exchange access and intercommunication charges.

(ii) An estimted 189 hours were required to perform the various general procedures set forth in response to Interrogatory 7 (c) (i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Miss Helen Switzer, Data Processing Manager

Mrs. Marjorie Wall, District Data Systems Manager

Mr. Ken Atkinson, Data Systems Analyst

Mr. Jack Sweeney, Data Systems Manager

Mrs. Jeanette Roberts, Staff Assistant

Mr. Jack Zollinger, Staff Supervisor

Mr. Fritz Flanagan, Staff Supervisor

Mr. Gerald Edwards, Staff Supervisor

The mailing address for all of the above individuals is:

220 North Meridian Street
Indianapolis, Indiana 46204.

E1700
Exhibit C

Michigan Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Michigan Bell answers these questions as follows:

(a) Personnel of Michigan Bell reviewed the methodology employed in the original Centrex study to determine how trunk rates for each rate group were allocated on a per station basis; updated the trunk rates to current established rates for allocation on a per station basis; and prepared a rate reommendation for approval by the Vice President of Revenues Planning. After approval by the Vice President the Tariff group prepared application and tariff sheets to forward to the Michigan Public Service Commission for approval. Upon receipt of the Michigan Public Service Commission order to implement the rate treatment the Tariff sheets were printed and distributed to all the departments concerned.

(b) An estimated 250 hours were required to perform the procedures set forth in response to (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and intercommunication became effective, the following books and records of Michigan Bell were changed to reflect the tariff charges for exchange access and for intercommunication: Changes in rates were shown in the USOC Manual and Data Processing Practice 2107. These rates were also included in the Customer Service Order used to install the service.

(c)(i) After a rate order is passed and the tariffs are established, the new rates are forwarded to Accounting and Marketing for their review and implementation. The rates for the involved USOC's are introduced to the data processing base, and the subscribers' charges are computed from the updated USOC base file. The subscribers' bills are prepared accordingly. Marketing maintains a USOC binder for use by the sales force. The Commercial Plan Departments do not get involved with Centrex billing or determination of rates.

(c)(ii) An estimated 850 hours were required to perform the various general procedures set forth in response to Interrogatories 7(c)(i).

(c)(iii) The officers or employees of Michigan Bell with primary supervisory responsibility for effecting the separation of Centrex charges were as follows:

Name	Dept.	Position and Time	Address
L. J. Haynes	Revenues and Planning	Vice President 1/70 - 1/73	444 Michigan Ave. Detroit, Michigan
H. E. Gwillim	Revenues and Planning	Assistant Vice President 1/67 - 1/73	Pentwater, Michigan
K. A. Hamming	Revenues and Planning	General Pricing Supervisor 1/67 - 1/73	444 Michigan Ave. Detroit, Michigan
R. K. Watson	Revenues and Planning	General Staff Supervisor 2/72 - 1/73	444 Michigan Ave. Detroit, Michigan
R. B. Lyon	Revenues and Planning	Staff Supervisor 12/69 - 1/73	444 Michigan Ave. Detroit, Michigan

E1703
Exhibit C

The Mountain States Telephone and Telegraph Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Mountain States answers these questions as follows:

(a) Mountain States first determined the number of trunks that were contemplated in each Centrex station rate step. Second, Mountain States determined the weighted trunk rate assessed to its "Mechanized PBX" customers (the forerunner offering to Centrex). Hence Mountain States identified the number of trunks in each rate step and the weighted trunk rate. By division Mountain States established the trunk component each station in a particular rate step bore in the original Centrex station rate. Lastly, to adjust that original amount to the, then, present, Mountain States merely determined the percent of the original station rate allocable to the provision of trunks and applied that to the existing rate. The resultant dollar amount was extracted from the station rate and identified as the "Centrex Exchange Access Charge (CEAC)".

(b) The time involved in preparing the revised tariffs was 1,800 hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of Mountain Bell were changed to reflect the tariff charges for exchange access and for intercommunication: revision of the Order Center Handbook and distribution to Handbook holders in the five States converted to USO/CRB, revision of exhibits

E1705
Exhibit C

in the Business Office Practice which illustrate Centrex service orders, conversion of existing Centrex service records by computer programming, and the changing of "single record", Form 2006U-4 on all classes of Centrex service. The charges for USOC's RXR, RGR, RX3, and RGU were separated, and the USOC NRX for intercommunication was added and rated.

(c)

(i) Interdepartment meetings were held to develop implementation methods, to develop a new USOC to identify the nontaxable portion of the main station, to revise the Order Center Handbook. In addition, the following steps were taken: issuance of joint Marketing-Commercial letters of instruction--one to USO/CRB States and the other to OPTO States; revision of exhibits in the Business Office Practice; explanations and clearance of the revised tariff materials to Business Office personnel concerned with complex business services. Existing Centrex service records were converted by computer programming. Programs were written in Data Systems to affect the addition of NRX and rerate each station affected. A new "single record" was created for each Centrex service. Plant also received a new record. Letters of detailed instruction and training were sent to each State Marketing and Commercial Manager.

(ii) An estimated 120 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
L. D. Gergens	Dir. of Commercial Operations	931 14th Street Denver, Colorado

E1706
Exhibit C

Janice A. Sullivan	Marketing Staff Administrator	1020 15th Street Denver, Colorado
R. A. Stephens	Marketing Operations Supervisor	1020 15th Street Denver, Colorado
P. J. Smid	Marketing Operations Manager	930 15th Street Denver, Colorado
R. H. Heath	Assistant Vice-President Marketing	1020 15th Street Denver, Colorado
E. L. Robinson	Arizona Marketing Manager	3640 East Indian School Road Phoenix, Arizona
L. E. Westbrook	Colorado Marketing Manager	930 15th Street Denver, Colorado
S. R. Bromley	Idaho Commercial/ Marketing Manager	999 Main Street Boise, Idaho
J. J. Buckley	Montana Commercial/ Marketing Manager	560 North Park Avenue Helena, Montana
F. C. Gumprecht	New Mexico Commercial/ Marketing Manager	201 Third NW Albuquerque, New Mexico
K. M. Dickson	Texas Commercial/ Marketing Manager	100 E. Alameda Avenue Tucson, Arizona
G. F. Pulver	Utah Marketing Manager	205 East 2nd South Salt Lake City, Utah
W. W. Sackman	Wyoming Commercial/ Marketing Manager	2020 Capital Avenue Cheyenne, Wyoming
W. F. Plume	Colorado/Wyoming Accounting Manager	5325 Zuni Denver, Colorado
T. P. Coyne	New Mexico/Texas Accounting Manager	625 Silver S.W. Albuquerque, New Mexico
J. L. Chandler	Arizona Accounting Manager	16 W. McDowell Rd. Phoenix, Arizona
R. E. Johnson	Utah/Idaho/Montana Accounting Manager	205 East 2nd South Salt Lake City, Utah

Exhibit C

New England Telephone and Telegraph Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). New England Tel. answers these question as follows:

(a) The following were the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication: (1) development of background information and support data; (2) interdepartmental meetings to discuss and plan new tariffs; (3) preparation of authority to file for review by upper management; (4) review of authority by upper management; (5) compilation and proofreading of tariff pages; (6) filing of tariff pages; and (7) distribution of printed tariff pages to various appropriate offices in the various states.

(b) An estimated 590 hours were required to perform the procedures set forth in response to (a) above.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of New England Telephone were changed to reflect the tariff charges for exchange access and for intercommunication: the Revenue Accounting Practice.

(c)(i) In this particular instance only the Accounting Department procedures were revised. A form was developed on which is calculated the number of Centrex lines in service during a billing period and then to determine the monthly rate for the exchange access portion of those lines to which the

Federal excise tax is applicable. In addition, two service charge detail summary cards (one for the exchange access portion and one for the intercommunication portion) are prepared to enter the separate charges on the customer's billing record.

(c)(ii) An estimated 250 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(c)(iii) The individual with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) was:

Name	Title	Address
Donald R. Marr	Assistant Comptroller	185 Franklin St. Boston, Mass.

E1710
Exhibit C

New Jersey Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). New Jersey Bell answers these question as follows:

(a) The steps necessary to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication were as follows:

Step 1. The quantities of exchange trunks for various representative system sizes included in the Centrex rate were determined.

Step 2. The appropriate and then current exchange trunk rate was multiplied by the quantity of trunks for each size system to determine total revenue from exchange access.

Step 3. The total exchange access revenues were divided by system sizes to determine exchange access revenue on a per primary telephone basis. This established the exchange access rates for the new rate structure.

Step 4. The reasonableness of these rates was tested by comparing the Federal Excise Tax liability on the Centrex exchange access revenue, by system size, as compared to the tax a PBX customer would pay on exchange trunks for the same size system.

Step 5. Once the Centrex Exchange Access rate levels were established they were removed from the total current Centrex primary telephone rate and the remainder was assigned to intercommunication.

(b) The amount of time of company personnel expended to carry out the steps described in (a) above is estimated to be 350 hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility

for effecting such a separation.

. . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, N. J. Bell changed its computer programs to reflect the separation of revenues on Centrex accounts for tax purposes.

(c) (i) Modify computer program and key punch cards.

(ii) An estimated 140 hours were required to perform the general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
T. J. Walsh	Accounting Staff Supervisor	Room 405, 540 Broad St. Newark, N.J. 07101
W. Muller	Accounting Manager	1100 Orange Ave. Cranford, N.J. 07016
J. Sliker	Accounting Manager	777 Parkway Ave. Trenton, N.J. 08618
J. Castronuovo	Accounting Manager	1500 Teaneck Road Teaneck, N.J. 07666

E1713
Exhibit C

New York Telephone Company

> "2. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 2(a) is other than an unqualified negative, state with respect to each such tariff:
>
> . . . .
>
> (iii) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it.
>
> . . . ."

2(a). Yes.

2(b)(iii). Interrogatory 2(b)(iii) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46, 51). NYT answers these questions as follows:

(a) In February 1972, after the 1971-1972 general strike ended, the NYT Revenues Department commenced work on the studies and back-up work necessary to accomplish a restructuring of the Centrex rate. The major study completed during the next two months involved development of separate charges for intercommunication and exchange access. An examination was made of station to trunk ratios for various size PBX customers and an update and interpolation of a 1961 NYT study concerning trunk rates was made. The figures developed were then adjusted to reflect rate case activity. Other studies completed by the Revenues Department, with assistance from the Accounting Department, were a revenue effect study and tax savings to customers study. The end result was a Rate Sheet completed in May 1972 which reflected the new restructured rates for Centrex, broken down by number of lines, Centrex-CO or Centrex-CU, and flat or message rate. The tariff was filed in June 1972 after consultation with the Legal Department and review by upper management in the Revenues Department, and became effective in August 1972.

(b) Two or three persons in the Revenues Department worked full time for several months (February-April 1972) developing the back-up data. A number of other people in the Accounting Department and other departments assisted. The actual preparation and review of the tariff and submission to the New York State Public Service Commission involved three or four people in the Revenues and Legal Departments part time for several months.

E1715
Exhibit C

Northwestern Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). NWB answers these questions as follows:

(a) Tariffs establishing separate Centrex station charges were prepared under the direction of the Assistant Vice President-Revenues of NWB. Staff members reporting to that person developed an Illustrative General Exchange Tariff. The illustrative tariff was then forwarded to the Vice President-Revenues for concurrence and to the Vice President-Operations for approval. After said approval the illustrative tariff was forwarded to the Assistant Vice President in each of the state jurisdictions in which NWB operates. That person and the staff members reporting to him made adjustments or changes which may have been required under the law or regulatory rules governing such a tariff in that jurisdiction. The tariff was then forwarded to the Vice President of NWB in the Area where the tariff was to be filed for approval. After said approval, the tariff was forwarded to the Assistant Vice President-Revenues of NWB, for review. After such review, the tariffs were approved by the President. After said approval, each tariff was forwarded to the Assistant Vice President in the state of filing, who then filed the tariff with the state regulatory commission.

(b) The identification of the amount of time of personnel of NWB which was required to carry out the process described in (a) above is impractical if not impossible.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of Northwestern were changed to reflect the tariff charges for exchange access and for intercommunication: all master records and billing tapes in the Accounting Department and individual customer records in the Commercial Department.

(c) (i) During the stated period, the procedure for implementing changes in tariff charges involved the service order process. A changed tariff charge caused a service order to be initiated for each affected customer. The Commercial Department prepared the order reflecting the change and copies were forwarded to other departments. As a result, the customer's record in the business office (Commercial Department) was manually corrected by pencil to show the new charge and new pages for the handbook used by Service Representatives would have been issued showing the new charge. The copy of the service order sent to the Accounting Department would have been used to manually or mechanically change the billing tape used to prepare the customer's bill. The copy of the service order sent to the Marketing Department would have been used as a basis for information reviewed by Marketing personnel in routine meetings. The copy of the service order to the Plant Department would have been used as a basis for amending a USOC manual used by Plant personnel.

(ii) The general procedures described in response to Interrogatory 7(c)(i) were performed in connection with assignments in addition to the alteration of records to reflect the tariff charges which separated Centrex charges for exchange access and for intercommunication. The identification of hours or costs attributable solely to the procedures required to reflect the tariff separation of Centrex charges is therefore impracticable if not impossible.

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
R. J. Larson	Accounting Supervisor	100 South 19th Street Omaha, Nebraska
J. S. Weldon	Commercial Operations Supervisor	100 South 19th Street Omaha, Nebraska
A. C. Carlson	Plant Operations Supervisor	100 South 19th Street Omaha, Nebraska
J. W. Heldridge	General Marketing Supervisor	100 South 19th Street Omaha, Nebraska
R. A. Ryerson	Assistant Vice President (Revenues)	100 South 19th Street Omaha, Nebraska

The Ohio Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Ohio Bell answers these question as follows:

(a) The process required to prepare and file revised tariffs establishing separate Centrex Station Charges for exchange access and for intercommunication was as follows. Between September 30, 1971 and the filing date of the revised tariffs, January 31, 1972, Ohio Bell unbundled its Centrex offerings. The validity of the unbundled rates was determined through a series of manual mathematical computations. These computations involved the following: (1) a test to determine current Exchange and Intercommunication increments; (2) the preparation of a proposed restructured Centrex Rate Schedule; (3) a test of taxable rates - PBX Trunks vs. Centrex Exchange Access; (4) a comparison of trunk increments per main station; and (5) a study of Centrex Exchange Access Charges (CEAC) vs. equivalent PBX Trunk Charges and resulting Federal excise taxes. After all rates were unbundled and approved by the Rate Department, tariff sheets were prepared for legal review. Once the Legal Department had approved the proposed tariff sheets, they were filed with the Public Utilities Commission of Ohio (PUCO). The proposed tariff revisions were approved by the PUCO and became effective on March 1, 1972.

(b) The estimated time to accomplish the steps outlined in (a) above was 234 hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate

Centrex station charges for exchange access and for intercommunication became effective, the following books and records of Ohio Bell, by department, were changed or modified to reflect the tariff charges for exchange access and for intercommunication:

Commercial Department - New USOC's were established to cover those services affected by not applying excise taxes to the intercommunication portion of Centrex station rates. Practices were revised to reflect these changes and then sent to field personnel for their use.

Marketing Department - Practices and memoranda were prepared regarding changes in customer billing information and the USOC's associated with excise taxes, which were directed to salespersons for dissemination to their customers.

Comptrollers Department - Comptrollers Bulletins and other practices were revised to indicate changes in account classification, key punch operations and USOC revisions in connection with excise tax changes regarding the billing of Centrex stations and associated trunks.

Plant Department - Practices were revised to indicate new USOC's that would appear on service orders as a result of rate unbundling for Centrex services. The applicable pages of the installer's handbook were also revised

(c) (i) The process to change records when a tariff is altered is as follows:

The proposed tariff changes are prepared by the Rate Department. Copies are then forwarded to the Commercial and Comptrollers

Departments for analysis as to whether new USOC's are required.

The Commercial Department also revises the following items:

- USOC Modifications - additions, deletions, BIS block, suffix application.
- Sequence Number - BIS and non-BIS, as applicable.
- Edited Description - 30 character description.
- Tax Status.
- Conversion Information - convert one code to another.
- Various information necessary for Master Files - BITS, Major Sort Key, Quantity, etc.

The Comptrollers Department, Data Systems portion, revises, when necessary, the following items:

- Data Base Search
- BIS Search
- Miscellaneous Manual Search
- Commercial Records Search
- Accounts provided by another source or department.

Preliminary investigations are made into the possibility of conducting the above searches. In some cases, searches may be made before the effective date of the change, depending on the date of the last data base. Data Systems notifies the Business Information System portion of Comptrollers if changes might require a BIS update using the Rate Base programs.

A draft of a letter is prepared by Data Systems to the Data Processing Department describing tariff changes, to be finalized when the revised final tariff sheets are received and verified. The letter provides the following information:

- effective date (provided from final tariff)
- tariffs
- sheet(s) having changes
- description of changes

The Comptrollers Department receives final revised tariff sheets with the effective date indicated, following approval by the Public Utilities Commission of Ohio (PUCO). These approved sheets are compared with the pending revision. Most tariff revisions are approved as proposed; however, any additions or deletions from the proposed tariff will necessitate a complete review of the total process.

After all the revised tariff sheets have been reviewed and verified, the draft letter to Data Processing is finalized. A Form DP 377 is prepared if USOC changes are involved. This form is used as the authority to update the master non-BIS USOC File.

The above described letter, the Form DP 377 and the revised tariff sheets are then sent to Data Processing prior to the effective date of the revised tariff sheets. If USOC's are to be placed into BIS, the BIS Form 130's are then processed.

When notification is received from the Rate Department that the tariff has been approved, the Data Processing, Plant, Marketing and Systems Design Departments develop revisions for their procedures, service order entries and service order exhibits. Because the service order format varies in different localities, it may be necessary to develop or revise more than one departmental practice to incorporate the revisions.

Appropriate Training sections are advised. These sections determine the need for and the amount of training that would be required for their departments.

Practices and appropriate training material are printed and distributed for each affected department.

(ii) It took approximately from January to April, 1972 to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

NAME	TITLE	ADDRESS
Mr. D. A. Boop	District Data Systems Mgr.	Rm. 305 6889 Snowville Rd. Brecksville, Ohio 44141
Mr. Ellis Clouse	District Mgr. Training	Rm. 8K 150 E. Gay Columbus, Ohio 43215

E1725
Exhibit C

NAME	TITLE	ADDRESS
Mr. T.C. Crawley	Div. Personnel Mgr.	Rm. 1210 100 Erieview Plaza Cleveland, Ohio 44114
Mr. R. S. Duff	District Commercial Mgr.	Rm. 19C 150 E. Gay Columbus, Ohio 43215
Mr. C. R. Grace	District Rate Mgr.	Rm. 301 55 Erieview Plaza Cleveland, Ohio 44114
Mr. R. J. Green	District Data Processing Mgr.	Rm. 500 104 N. 3rd Columbus, Ohio 43211
Mr. J.A. Hermann	District Marketing Mgr.	Rm. 33 75 Erieview Plaza Cleveland, Ohio 44114
Mrs. L.J. Price	Data Processing Mgr.	Rm. 344 6889 Snowville Rd. Brecksville, Ohio 44141
Mr. J. S. Rock	District Commercial Mgr.	Rm. 608 820 W. Superior Ave. Cleveland, Ohio 44113
Mr. C.F. Roesch	District Data Processing Mgr.	Rm. 174 6889 Snowville Rd. Brecksville, Ohio 44141
Mr. L.D. Sharp	District Data Systems Mgr.	Rm. 375 6889 Snowville Rd. Brecksville, Ohio 44141
Mr. W.M. Stevens	Financial Supervisor	AT&T Rm. C-2563 195 Broadway New York, N.Y. 10007
Mr. Theodore Rigby (deceased)	District Rate Manager	

Pacific Northwest Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). PNB answers these question as follows:

(a) The steps necessary to prepare and file the restructured Centrex tariffs were as follows:

(i) Rate Planning: Development of alternative exchange access and intercommunication rate components; consideration of impact on existing and prospective customers; and preparation of tariff recommendation to effect restructuring.

(ii) Tariff Preparation and Submission: Preparation of draft tariff revisions; securing of necessary internal approvals; submission of restructured tariff for approval by regulatory authorities; distribution of restructured tariff and preparation of explanatory materials.

(b) The time required to implement the steps described in (a) above was as follows:

(i) Sixty hours.

(ii) Fifty hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of Pacific Northwest Bell Telephone Company were changed to reflect the tariff charges for exchange access and for intercommunication: computer programs used for billing and pricing,

and reference materials such as USOC lists used by employees to process Centrex service requests.

(c) (i) The tariffs were filed with and approved by the State Utility Commissions in Washington, Idaho and Oregon. Computer programs used to price and bill the service were changed, non-computerized records were changed, and employees dealing with Centrex services were retrained on procedures to comply with new tariffs.

(ii) An estimated 750 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibilities over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
R. E. Kroll	General Tariff Supervisor	821 Second Avenue Seattle, Washington
R. F. Radke	Division Data Systems Mgr.	821 Second Avenue Seattle, Washington
W. M. Robertson	General Marketing Supervisor	821 Second Avenue Seattle, Washington
W. A. Davenport	Commercial Oper. Supervisor	821 Second Avenue Seattle, Washington
J. C. Piland	General Oper. Supervisor	305 Alviso Way Encinitas, California

Exhibit C

The Pacific Telephone and Telegraph Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> > (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Pacific answers these question as follows:

(a) Some basic data about Centrex service were available in 1971 when the initial steps were taken to prepare and file revised tariffs establishing separate Centrex charges for exchange access and for intercommunication. Therefore extensive interdepartmental meetings and cost study work were not required in preparing this tariff. However, some discussions and meetings were held within the Company preliminary to this tariff filing.

Essentially, Company personnel followed these steps in the preparation and filing of the revised tariff. Existing cost study data were studied and additional cost study data developed to arrive at a proper separation of the Centrex charges and rates. The tariff revision was then drafted and discussed with appropriate Company personnel. Next a management proposal to approve the tariff revision was prepared and distributed. After management approval but prior to the tariff being sent to the California Public Utilities Commission the new items of tariffed service were assigned a separate USOC.

The tariff proposal was then transmitted to the California Public Utilities Commission Staff for review, comments and questions. The Commission Staff asked various questions concerning the proposed tariff filing. These were answered. Pacific then issued an Advice Letter requesting approval of the filing. The tariff was approved and the initial administrative steps were begun to give effect to the new tariff.

(b) An estimated 245 hours were required to perform the steps required to carry out the process of preparing and filing the revised Centrex tariff.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect

> such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of The Pacific Telephone and Telegraph Company were changed to reflect the tariff charges for exchange access and for intercommunication: Centrex customer's master billing files, Forms K-3242, service orders, A-7012 Equipment Print-Outs, GA-174s for new USOC, billing program tape for rating billed charges, Centrex customer bills, and the USOC Guide.

(c) (i) Prior to a tariff being sent to the CPUC the new items of tariffed service are assigned a separate USOC. After consulting with AT&T for the assignment of such USOC, that USOC was discussed and evaluated by the following departments: Accounting, (Billing and Taxes), Customer Operations, (Customer Services, Installation and Repair), Training and Marketing Sales.

The procedure for establishing USOC Codes is as follows:

1. New tariff offerings and changes are directed to Pacific's USOC coordinator for new USOC codes as required for billing.
2. The coordinator first reviews a manual prepared by AT&T, to determine if an appropriate USOC code is available.
3. The coordinator then contacts the AT&T USOC

coordinator for confirmation of a code listed in the AT&T manual or to request that a new code be established for the new tariff item. Interdepartmental discussions are held at this point.

4. After the USOC has been "cleared" by the affected departments, the Pacific USOC coordinator prepares for approval, the USOC guide maintenance form GA174 to officially establish new USOC codes. After required approvals the new code is printed in Pacific's USOC guide.

Coincident with the assignment of new USOC for new tariffed items, procedures and practices of the affected departments must be changed and revised, interdepartmentally approved and printed for distribution to all affected Company personnel. The Customer Services and Marketing Practices are extensively distributed, and the Federal excise tax pages of Pacific's tax practice and procedures requires changing, printing and distribution. This distribution reaches about 850.

After the Customer Service, Marketing and tax practices have been issued, various customer service training materials are created and printed from them. These are distributed to affected personnel. Training time for these new practices ranges from 1/2 hour to 1/2 day. The changes in the USOC Centrex rates in March, 1972 averaged approximately one hour per representative, or a total of about 5,000 hours.

In addition to the information materials required to correctly service our customers, similar procedures are required for informing the various Accounting billing locations. There are nine billing locations in

California and each of these offices required notification of the Centrex exchange access rate change. These notifications involve the many facets of customer billing, such as rating, occasional charges and credit statement, customer's monthly bill statement, the detail of the customer's equipment, changes in the customer's master file, changes in the orders for service and the initial interrogation of all customer's service orders for correct reporting of the changed tariff item and the new charge.

(ii) An estimated 600 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
J. D. Einerman	Vice President and Comptroller	140 New Montgomery St. San Francisco,CA 94105
E. B. Erickson	Assistant Comptroller	140 New Montgomery St. San Francisco,CA 94105

E1734
Exhibit C

South Central Bell Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). SCB answers these question as follows:

(a) In order to prepare revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, the Rates and Tariffs organization at SCB Headquarters had to develop the rate elements for such separation. The method used was to determine the trunk increments necessary to provide exchange access for the various main station groupings by number of stations. After determining the trunk increment per main station by groupings, the Rates and Tariffs organization developed separate charges for exchange access and intercommunication. The proposed tariffs and methods developed by the Rates and Tariffs organization were reviewed by the Headquarters Commercial, Marketing, Comptrollers (Taxes) and Comptrollers (Systems and Procedures) organizations before the illustrative tariffs were recommended to the state area operations for implementation. After such approval, a general rate letter with the illustrative tariff attached was sent to each state recommending that tariffs be filed to separate the charges.

After receipt of the general rate letter, the Rate and Tariff organization in each state studied the illustrative tariffs and prepared proposed tariffs in the form required to be filed in that state. The proposed tariffs for each state were reviewed and approved by the appropriate executive or executives in such state. The tariffs were thereafter filed with the appropriate regulatory commission in each state and became effective in accordance with the rules and regulations of the various commissions.

(b) It is estimated that the amount of time of personnel of SCB which was required to carry out the process of preparing and filing such revised tariffs was six hundred hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping,

> training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunciation became effective, the following books and records of South Central Bell were changed to reflect the tariff charges for exchange access and for intercommunication:

1. General Subscriber Service Tariffs
2. Customer Service Records
3. Service Orders
4. Various Statistical Reports

(c) (i) To accomplish the restructuring of Centrex for tax purposes, the rates for unrestricted Centrex main stations were separated into two rate elements -

Centrex Exchange Access Charge (CEAC) - subject to FET

Centrex Intercommunication Charge (CIC) - not subject to FET

whose aggregate total equaled existing Centrex station charges. Effective with the tariff change the appropriate USOC codes to identify the CEAC and the CIC Charges were required to be shown on all service orders involving Centrex stations that qualified.

Services orders to convert existing accounts were not required. All Centrex accounts were processed by a special computer program which removed the present rate for affected station USOC's and reentered the rate for the CEAC. At the same time the proper USOC and rate for the CIC was added. Comptrollers furnished Marketing and Commercial with Forms 9145 (Customer Service Records) reflecting the separated charges.

The reduction in Federal Excise Tax was effective with each account's respective billing period. Therefore, no fractional charges or credits resulted from the restructuring.

Service Representatives and Marketing personnel, as appropriate, were responsible for entering the proper codes on all new order memoranda, as well as pending orders in accordance with the following guidelines:

- All service orders involving affected Centrex stations that were transmitted as complete on or after the effective date of the tariff reflected the new structure.
- Pending orders, due on or after the tariff dates were restructured prior to completion.
- Orders completed prior to tariff date and on the hold file until tariff date or after, were restructured by Comptrollers.

Marketing was responsible for notifying Centrex customers of the reduction in the FET prior to the effective date of the tariff change. The Marketing Representatives handling the account explained

- The effective date of the reduction.
- The portion of the Centrex service that is affected by the tariff change.
- The approximate amount of reduction in the monthly bill.

Once restructuring was completed, no further special processing was necessary.

(ii) An estimated 700 hours were required to perform the various general procedures set forth in response to the Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Position	Present Address
J. C. Tuttle	Vice President - Comptroller	Headquarters Bldg. 600 N. 19th Street Birmingham, Alabama
F. C. Izard	Assistant Comptroller	Headquarters Bldg. 600 N. 19th Street Birmingham, Alabama
R. F. Coltrane	Assistant Comptroller	Deceased
P. E. Williams	Assistant Comptroller	Hurt Building Atlanta, Georgia
B. V. Walton	Assistant Comptroller	Headquarters Bldg. 600 N. 19th Street Birmingham, Alabama
B. B. Davidson	General Systems Manager	195 Broadway New York, N. Y.
J. M. Brawn	General Systems Manager	Ft. Lauderdale, Florida
D. S. O'Cain	General Systems Manager	Headquarters Bldg. 600 N. 19th Street Birmingham, Alabama
T. T. Thomas	General Accounting Manager	1215 Prytania Street New Orleans, La.
C. F. Hamff	General Accounting Manager	Bagby Drive Birmingham, Alabama
J. T. Bennett	General Accounting Manager	First National Bank Bldg. Jackson, Mississippi
J. D. Holdway	General Accounting Manager	Green Hills Building Nashville, Tennessee
J. M. Shaver	General Accounting Manager	Louisville, Kentucky

Southern Bell Telephone and Telegraph Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). Southern Bell answers these question as follows:

(a) When the Centrex tariff was restructured, that portion of the charge for each main station attributable to the provision of trunks for access to or from the local exchange and message toll networks was determined. Tariff material was then prepared which identified this charge and separated it from that portion of the main station rate attributable to intercommunication. This tariff material was then filed with the various state regulatory bodies.

(b) Due to the many variables involved, it is virtually impossible to accurately determine the amount of time necessitated by the preparation and filing of the revised tariffs. A broad-gauge estimate would be in the order of a minimum of 500-1,000 hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
>
> (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
>
> (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of Southern Bell were changed to reflect the tariff charges for exchange access and for intercommunication: billing records, USOC's, Customer Service Records (Forms 9145).

(c) (i) Based upon a computer rate change program, the billing records for all Centrex customer accounts, as contained on the Southern Bell computer system Equipment Master File, were converted to the revised tariff rates under the restructured tariffs. The USOC's representing the Centrex

Exchange Access Charge were re-rated and identified as charges subject to Federal Excise Tax; and new USOC's representing the Centrex Intercommunication charges were created and identified as charges not subject to Federal Excise Tax. The computer rate change program also generated new "single record" printouts - Customer Service Records (Forms 9145) with the restructured rates and changes in Federal Excise Tax treatment reflected thereon. In addition, service orders pending on the effective date of the restructured tariffs were reviewed and new USOC's entered on those service orders involving Centrex service prior to transmitting such orders to Comptrollers.

(ii) An estimated 750 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibilities over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Address
Mr. J. M. Braun	Assistant Vice President	Miami, Florida
Mr. G. F. Ellerbeck	Systems Manager	Atlanta, Georgia

Exhibit C

Southern New England Telephone Company

> "2. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 2(a) is other than an unqualified negative, state with respect to each such tariff:
>
> . . . .
>
> (iii) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it.
>
> . . . ."

2(a). Yes.

2(b)(iii). Interrogatory 2(b)(iii) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46, 51). SNETCO answers these questions as follows:

(a) The following is the method used by SNETCO to accomplish the restructuring of tariffs covering the primary station rates for Centrex service into an exchange access component and an intercommunication component.

Existing Centrex customers were studied to determine the actual exchange access usage of unrestricted primary stations. The exchange access includes all calls that are generated by direct inward dialing and direct outward dialing and over special service trunks. The actual data were collected in terms of busy-hour calling volume by Centrex customer. Through the use of probability tables (Poisson Distribution

Theory), the actual exchange access usage data for each customer were translated to the number of equivalent trunks that would be required if the customer had Private Branch Exchange (PBX) service. The result was that for each customer studied the number of equivalent trunks was known for the number of unrestricted primary stations in that particular Centrex system.

The next step was to determine the averages of these data that could be applied uniformly to all Centrex customers. This was accomplished by plotting the number of equivalent trunks versus the number of unrestricted primary stations and, using the method of least squares, determining the "best fit" straight line between the data points. The resultant "best fit" straight line made it possible to determine the number of equivalent trunks for a given number of unrestricted stations.

The average station to trunk ratios were applied to each segment of the total primary station rate in the tariff to determine the exchange access portion of the total primary station rate. The remaining portion of the total primary station rate was the intercommunication portion.

(b) The process of preparing and filing the revised tariffs required a total of thirty person-days.

E1744
Exhibit C

Southwestern Bell Telephone Company

> "2. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 2(a) is other than an unqualified negative, state with respect to each such tariff:
>
> . . . .
>
> (iii) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it.
>
> . . . ."

2(a). Yes.

2(b)(iii). Interrogatory 2(b)(iii) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46, 51). SWB answers these questions as follows:

(a) The steps required to prepare and file the revised Centrex tariffs were as follows: (1) deciding upon the rate plan; (2) development of rates; (3) meeting with appropriate departments; (4) receiving executive authorization; (5) informing field personnel; (6) development of state tariffs by state rate groups; and (7) filing of tariffs.

(b) The estimated amount of time required for each of the steps described in response to (a) above was: (1) one and one-half weeks; (2) one and one-half weeks; (3) one and one-half weeks; (4) one-half week; (5) one week; (6) two weeks; and (7) two days.

Wisconsin Telephone Company

> "6. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant file with any local regulatory authority any tariff which separated Centrex charges for exchange access and for intercommunication?
>
> (b) If the answer to interrogatory 6(a) is in the affirmative, state with respect to each such tariff:
>
> . . . .
>
> (v) the costs incurred by the answering defendant, if any, in the development, preparation and filing of it; and
>
> . . . ."

6(a). Yes.

6(b)(v). Interrogatory 6(b)(v) was directed to be answered (a) by describing the steps required to prepare and file revised tariffs establishing separate Centrex station charges for exchange access and for intercommunication, and (b) by describing the amount of time of personnel of the answering defendant which was required to carry out the process of preparing and filing such revised tariffs (November 8, 1976 Tr. 44-46). These questions are to be answered in the same general manner as the answering defendant answered Interrogatory 7(c)(i) and (ii) of Plaintiffs' Second Wave Interrogatories, First Set on July 21, 1976 (November 8, 1976 Tr. 46). WTC answers these question as follows:

(a) The average number of trunks needed to serve the various increments of Centrex main stations was first determined by using the existing ratio of central office trunks to PBX main stations. The average rate per trunk was then computed using a weighted average for existing flat rate and measured rate trunks. The average number of trunks per main station was then multiplied times the average rate per trunk.

The amount thus derived was divided by the number of Centrex stations to derive the per station amount for Centrex exchange access. The amount thus allocated to exchange access was subtracted from the total Centrex station charge to derive the charge for intercommunication.

(b) Forty hours.

> "7. (a) During the period January 1, 1961 to December 31, 1972, did the answering defendant separate Centrex charges for exchange access and for intercommunication in any books, records, manuals, computer programs, ledgers, accounts, bills, or any other documents produced or maintained by it, including without limitation, in any document described as the 'single record'?
>
> . . . .
>
> (c) If the answer to interrogatory 7(a) is in the affirmative, state:
>
> > (i) the administrative, bookkeeping, training, or other managerial or clerical steps required and completed to effect such a separation;
> >
> > (ii) the costs incurred by the answering defendant as a result of the steps described in response to interrogatory 7(c)(i); and
> >
> > (iii) the identity of the officers or employees of the answering defendant with primary supervisory responsibility for effecting such a separation.
>
> . . . ."

7. (a) Yes. After the tariffs establishing separate Centrex station charges for exchange access and for intercommunication became effective, the following books and records of WTC were changed to reflect the tariff charges for exchange access and for intercommunication: single record documents were changed by computer programs and manually maintained service and equipment records for non-single record accounts were changed to include the new Centrex USOC, NRX, and the restructured Centrex station charges.

(c) (i) Separate conversion systems were developed to update the mechanized and manual customer records to reflect the changes required by tariff revisions. In the mechanized conversion, the single record master file was searched to identify Centrex accounts by class of service and the former taxable USOC, RXR. A new single record master file was created carrying separate rates for USOC, RXR (exchange access) and USOC, NRX (intercommunication). After all controls and edits were satisfied, the new single record master file was used to mechanically create updated service and equipment punch cards for all Centrex accounts. These records carried the new amount of monthly charges subject to the federal excise tax for each taxable Centrex account. The new amounts subject to the federal excise tax were entered into the master billing file for use in calculating the amount of federal excise tax.

The manually maintained Centrex records were updated in a similar manner, except the separation of taxable and non-taxable Centrex charges and the subsequent controlling and balancing steps were clerical work operations. Service and equipment records were keypunched for all manually processed Centrex accounts and were used to update the master billing files as described in the mechanized conversion function.

In the initial monthly billing, taxable Centrex customers received a federal excise tax credit covering the non-taxable intercommunication charges. This manually calculated credit appeared on the Other Charges and Credit line of the telephone bill, because time did not permit modification of the mechanized and manual records until the following month. All completed Centrex service orders issued prior to cut-over were corrected to reflect the restructured tariff and the non-federal excise tax status of intercommunication charges.

Commercial records for non-single record accounts were converted to include the restructured tariff on a service order issuance basis. New single record documents were prepared for business office use as part of the tariff implementation work.

Sales personnel visited with all taxable Centrex customers to explain the reduced federal excise tax charges and the revised record format.

Plant records were updated to reflect the restructured Centrex tariff on a service order issuance basis.

(ii) An estimated 850 hours were required to perform the various general procedures set forth in response to Interrogatory 7(c)(i).

(iii) The individuals with supervisory responsibility over the activities described in response to Interrogatory 7(c)(i) were:

Name	Title	Present Address
D. C. Aker	Commercial Staff Supervisor - Methods	845 N. 35th St. Milwaukee, WI
L. L. French	District Commercial Manager - Central Dist.	722 N. Broadway Milwaukee, WI
L. C. Meyer	District Commercial Manager - Central Dist.	722 N. Broadway Milwaukee, WI
J. B. Pinter	District Commercial Manager - North Dist.	70 E. Division Fond du Lac, WI
G. E. Osborne	District Commercial Manager - South Dist.	295 Maple Avenue Basking Ridge, NY
B. J. Haase	District Commercial Mgr. - Green Bay Dist.	6811 Maple St. Milwaukee, WI
A. W. Jaehnke	District Commercial Mgr. - Eau Claire Dist.	304 S. Dewey Eau Claire, WI
C. F. Potter	District Commercial Mgr. - Fond du Lac Dist.	70 E. Division Fond du Lac, WI
D. W. Wixon	District Commercial Manager - Neenah-Menasha District	5200 Washington Racine, WI

E1749
Exhibit C

Name	Title	Present Address
S. L. Smith	District Commercial Manager - Racine Dist.	340 W. College Ave. Appleton, WI
R. L. Ruble	District Commercial Mgr. - Janesville Dist.	316 W. Washington Madison, WI
J. P. Scheel	District Commercial	316 W. Washington Madison, WI
J. L. Gilbert	Division Data Systems Supervisor - Accounts Applications	845 N. 35th St. Milwaukee, WI
E. E. Anderson	District Data Processing Manager - Revenue - Milwaukee	845 N. 35th St. Milwaukee, WI
K. R. Schiefelbein	District Data Processing Manager - Revenue - Oshkosh	315 Algoma Blvd. Oshkosh, WI
R. E. Nichols	District Data Processing Mgr. - Data Processing	1701 W. Wisconsin Ave. Milwaukee, WI
G. S. Brown	Division Data Systems Supervisor - Accounts Applications	3802 E. Elm Lane Oshkosh, WI
W. N. Bennett	Division Marketing Supv. - Major Accounts	633 W. Wisconsin Ave. Milwaukee, WI
E. J. Eidenberger	Division Sales Mgr. - Major Accounts	633 W. Wisconsin Ave. Milwaukee, WI
P. A. Bayorgeon	Division Sales Manager - Janesville and Racine Districts	922 N. Lexington Janesville, WI
C. F. Ehlert	Division Sales Manager - Madison and Eau Claire Districts	225 N. Richmond Appleton, WI
R. T. Peldo	Division Sales Mgr. - Northern Div.	741 N. Milwaukee Milwaukee, WI
A. K. Schultz	Plant Staff Supervisor-Exchange Methods	304 S. Dewey Eau Claire, WI
L. J. Rutigliano	Dist. Plant Manager - Central District	722 N. Broadway Milwaukee, WI
G. L. Tice	Dist. Plant Manager - South Ditrict	722 N. Broadway Milwaukee, WI

E1750
Exhibit C

Name	Title	Present Address
A. J. Wedemeyer	Dist. Plant Manager - West District	845 N. 35th St. Milwaukee, WI
J. J. Kane	Dist. Plant Manager - North District	722 N. Broadway Milwaukee, WI
D. C. Rintelman	Dist. Plant Manager - Northwest District	740 N. Broadway Milwaukee, WI
A. R. Sumter	Dist. Plant Manager - Waukesha District	740 N. Broadway Milwaukee, WI
L. L. Strohbusch	Dist. Plant Manager - Eau Claire District	4353 N. Richards Milwaukee, WI
L. J. Hartl	Dist. Plant Manager - Fond du Lac District	103 N. Peters Ave. Fond du Lac, WI
R. De Moe	Dist. Plant Manager - Green Bay District	219 Lau Green Bay, WI
R. E. Brown	Dist. Plant Manager - Neenah - Menasha District	112 N. Adam Green Bay, WI
D. M. Vold	Dist. Plant Manager - Janesville District	2400 Kossow Waukesha, WI
C. L. Kennedy	Dist. Plant Manager - Madison District Toll and C.O.	316 W. Washington Madison, WI
B. J. Schlaeger	Dist. Plant Manager - Racine District	411 7th Racine, WI

C- [illegible]
[illegible]
T [illegible]

E1751
EXHIBIT K
January 20, 1965 memorandum

Remarks Regarding Mr. R. D. Weber's letter on considerations involving excise tax reductions pertaining to Centrex stations.

I. In answer to Mr. Weber's basic question as to the feasibility of refiling Centrex rates on a two-component basis - it appears that this could be done. This opinion has the concurrence of Mr. Soeder.

II. The proposal of the two component approach to affect a tax reduction does create certain problems.

(a) Will the Ohio Commission recognize and concur in our reasons for the tariff revision?

(b) Can a reliable timetable be established which can assure that the tariff revision will be prior to or coincidental with the tax reduction?

(c) Do we wish to revise our tariffs to enable the establishment of a certain tax structure. If we do aren't we in a position where we could constantly be revising our tariffs to accomplish certain tax advantages.

(d) This tax structure, identifiable with trunks, will be discriminatory in favor of the PBX subscriber who can control the purchase of trunks.

Example Flat Rate Schedule II

Flat Rate Schedule II Centrex
200 x $7.00 (estimated Line chg.) = $1400.00 - tax $140.00
Flat Rate PBX trunks $24.85 each
200 station PBX equipped with 40 trunks would pay 40 x 24.85 = $994.00 - tax $99.40

Note: This discrimination decreases as the station count passes the 300 and 900 station level.

Deft
EXHIBIT
U. S. Dist. Court
S. D. of N. Y.
K

(e) Using the schedule 3 rate structure and following the New York thinking the proposed rate structure for Centrex lines appears as follows.

1st 300 -	$4.25	Tax @ 10%	42-1/2¢
Next 600 -	2.25	" " "	22-1/2¢
Over 900 -	.50	" " "	.05¢

(f) What will be the approach regarding consoles? Should the entire facility be tax free due to rate structure of stations. The switchboards on PBX systems will not be taxed.

E1752
Exhibit K

(g) Are we creating a problem in that a subscriber may request purchase of a Centrex line terminated on an existing K.T.S. For example: three lines terminating on three instruments. Sub requests a fourth line but no additional instrument. Can he purchase only the Centrex line?

(h) The station differential C.O.-C.U. is now shown against the restricted station this differential if it remains on the station rather than the Centrex line will create a greater tax reduction to the C.O. subscriber than to the C.U. subscriber.

TDR 1/20/65

E1753
EXHIBIT M FOR IDENTIFICATION
February 12, 1974 letter from S.J. Markman
to L.E. Walsh

HOGAN & HARTSON

FRANK J. HOGAN (1877-1944)
NELSON T. HARTSON (RETIRED)

EDMUND L. JONES
SEYMOUR B. MINTZ
GEORGE E. MONK
EDWARD A. McDERMOTT
FREDERICK M. BRADLEY
FRANK F. ROBERSON
MERLE THORPE, JR.
LEE LOEVINGER
CORWIN R. LOCKWOOD
WILLIAM T. PLUMB, JR.
C. FRANK REIFSNYDER
GEORGE W. WISE
ROBERT K. EIFLER
EDGAR W. HOLTZ
JOHN P. ARNESS
FRANCIS L. CASEY, JR.
E. BARRETT PRETTYMAN, JR.
ARNOLD C. JOHNSON
JOHN J. ROSS
HOWARD F. ROYCROFT
ROBERT H. KAPP
WILLIAM O. BITTMAN
SHERWIN J. MARKMAN
ROBERT J. ELLIOTT
JAY E. RICKS
ROBERT M. JEFFERS

DENNIS J. LEHR
ARTHUR J. ROTHKOPF
KEVIN P. CHARLES
JEROME N. BONOSKY
JAMES A. HOURIHAN
GERALD E. GILBERT
JOHN M. FERREN
AUSTIN S. MITTLER
VINCENT H. COHEN
HOWARD R. MOSKOF
GEORGE U. CARNEAL, JR.
GARY L. CHRISTENSEN
OWEN M. JOHNSON, JR.
ALFRED T. SPADA
BOB GLEN ODLE
RICHARD S. RODIN
STUART PHILIP ROSS
RICHARD J. M. POULSON
PETER W. TREDICK
ANTHONY S. HARRINGTON
ALFRED JOHN DOUGHERTY
PETER F. ROUSSELOT
RICHARD Z. RUGE
JAMES J. ROSENHAUER
SARA-ANN DETERMAN
TIMOTHY J. BLOOMFIELD

ROBERT S. BENNETT
JOE CHARTOFF
MARVIN J. DIAMOND
DAVID J. HENSLER
GEORGE W. MILLER
ALVIN EZRIN
JOSEPH M. HASSETT
DOUGLAS L. PARKER
RAYMOND E. VICKERY, JR.
ERIC A. VON SALZEN
ALPHONSO A. CHRISTIAN, II
GAIL STARLING MARSHALL
MARTIN MICHAELSON
WILLIAM A. BRADFORD, JR.
DAVID B. LYTLE
CURTIS E. VON KANN
DENNIS J. WHITTLESEY
ALFRED F. DOUGHERTY, JR.
SAMUEL SHEPARD JONES, JR.
WILLIAM S. REYNER, JR.
PHILIP C. LARSON
DAVID J. SAYLOR
ROBERT R. BRUCE
HENRY POLMER
LEONARD E. SANTOS
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815 CONNECTICUT AVENUE
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CABLE ADDRESS "HOGANDER WASHINGTON"

TELEX 89-2757

WRITER'S DIRECT DIAL NUMBER

(202) 331-4626

Deft

EXHIBIT
U. S. Dist. Court
S. D. of N. Y.

February 12, 1974

Lawrence E. Walsh, Esquire
Davis, Polk & Wardwell
1 Chase Manhattan Plaza
New York, New York 10005

Re: duPont, et al. v. AT&T, et al.

Dear Mr. Walsh:

It has come to my attention that representatives of the Internal Revenue Service may be presently inquiring into the reasonableness of the allocation by Bell System companies of Centrex charges between the intercommunication portion and the exchange access portion. I also understand that representatives of the I.R.S. may be contacting employees and officers of AT&T and the Bell System companies in the course of the I.R.S. inquiry.

I am sure that you will recognize that any decision that the I.R.S. might make on the reasonableness of the allocation of Centrex charges will directly affect the interest of my clients in the referenced litigation and the interest of the class that they seek to represent.

Accordingly, I am asking on behalf of the plaintiffs in the referenced case that you inform me of every contact and communication between employees and officers of the defendants and representatives of the I.R.S. concerning the reasonableness of the allocation of Centrex charges made by the Bell System companies.

E1754
Exhibit M for Identification

Lawrence E. Walsh, Esquire
February 12, 1974
Page Two

If you do not intend to comply with my request, please advise me. Thank you for your cooperation.

Sincerely,

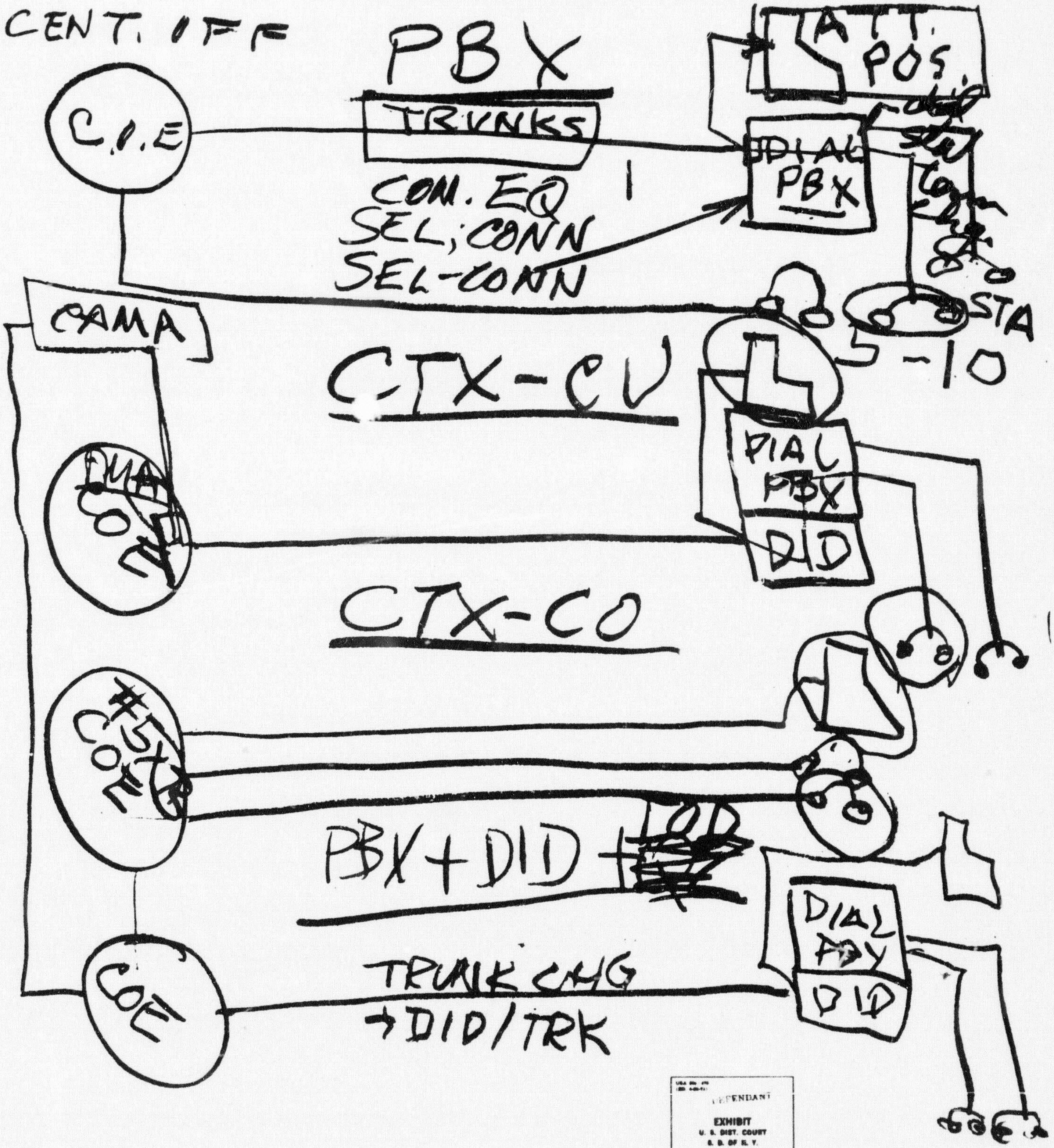
Sherwin J Markman

Sherwin J. Markman

E1755

EXHIBIT N

Schematic Drawing Describing PBX and Centrex Service


CENT. OFF
PBX
TRUNKS
C.O.E
COM. EQ
SEL; CONN
SEL-CONN
1
ATT. POS.
DIAL PBX
STA
5-10
CAMA
CTX-CU
DIAL PBX
DID
CTX-CO
#5XB COE
PBX + DID + DOD
DIAL PBX
DID
COE
TRUNK CHG
→ DID/TRK

DEFENDANT
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.
N

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the within Exhibit Vol. 3 is hereby admitted this

2nd day of December, 1977.

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Attorney for

Robert B. Fiske Jr.
12/2/77

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